DOCUMENT RESUME

ED 121 867 UD 015 811

AUTHOR	Yokelson, Doris, Ed.
TITLE	Collected Papers on Poverty Issues. Volume 1: American Poverty Problems and Policies.
INSTITUTION	Hudson Inst., Croton-on-Hudson, N.Y.
SPONS AGENCY	Office of Economic Opportunity, Washington, D.C.
REPORT NO	HI-2277-RR
PUB DATE	Jun 75
NOTE	378p.; For Volumes 2 (Parts 1 and 2)-4, see UD 015 812-815
EDRS PRICE	MF-$0.83 HC-$20.75 Plus Postage
DESCRIPTORS	American Culture; *American Studies; *Anthologies; Cultural Awareness; Economically Disadvantaged; *Economic Factors; Income; Individual Needs; Low Income Groups; Metropolitan Areas; Policy Formation; *Poverty Research; *Public Policy; Revenue Sharing; Social Attitudes; Social Services; Tax Allocation; Tax Rates; Welfare Services
IDENTIFIERS	Social Security

ABSTRACT

This four-volume anthology is comprised of numerous drafts, papers, and reports written by professional staff and consultants of the Hudson Institute. The many chapters are not considered to offer any solutions but to have raised many problems, sorted out and elucidated issues, often in new ways, and suggested recommendations. The present collection, Volume 1, addresses: American poverty problems and policies of the past, present, and future; the philosophical and historical perceptions of poverty, income, and income redistribution; the measurement and reduction of poverty; and, the workability of some income redistribution programs. Listings under the section on problems include theoretical, historical, and pragmatical considerations, with the section on perceptions and policies including topics such as welfare, poverty standards, metropolitan variations in poverty incidence, and definitions, change, continuity, and the future in the measurement and reducation of poverty. Income tax and income redistribution topics include the meaning of the income tax, federal income distribution policy in the 1970's, the "negative income tax", social security expenditures, and general revenue sharing and the administration of federal grants-in-aid. (Author/AM)

Documents acquired by ERIC include many informal unpublished materials not available from other sources. ERIC makes every effort to obtain the best copy available. Nevertheless, items of marginal reproducibility are often encountered and this affects the quality of the microfiche and hardcopy reproductions ERIC makes available via the ERIC Document Reproduction Service (EDRS). EDRS is not responsible for the quality of the original document. Reproductions supplied by EDRS are the best that can be made from the original.

UD

U S DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION
THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

ED121867

Collected Papers on Poverty Issues

DORIS YOKELSON, editor

Volume I:
American Poverty Problems and Policies

chapters by
PAUL M. BUNGE
RAYMOND D. GASTIL
PETER KARSTEN
IRVING LEVESON
HERBERT LONDON
JEFFREY MARSH
JANE NEWITT
MICHAEL SHERMAN

HI-2277-RR

June 1975

UD 015811

POLICY RESEARCH
IN THE PUBLIC INTEREST

Hudson Institute

Quaker Ridge Road, Croton-on-Hudson, New York 10520
1 Rue du Bac, Paris 75007, France
1-11-46 Akasaka, Minato-ku, Tokyo, Japan

COLLECTED PAPERS ON POVERTY ISSUES

Edited by
Doris Yokelson

VOLUME I:

AMERICAN POVERTY PROBLEMS AND POLICIES

Chapters by

Paul M. Bunge	Herbert London
Raymond D. Gastil	Jeffrey Marsh
Peter Karsten	Jane Newitt
Irving Leveson	Michael Sherman

HI-2277-RR

June 1975

These papers were produced as part of a project of U.S. social policy studies conducted under a grant from the Office of Economic Opportunity. The views and conclusions are those of the individual authors, and should not be quoted without specific attribution.

HUDSON INSTITUTE, INC.
Quaker Ridge Road
Croton-on-Hudson
New York 10520

PREFACE

Collected here, in four volumes, are numerous drafts, papers and reports that were written during the two years from June 1973 to June 1975 by the professional staff and consultants of the Hudson Institute working under a grant from the Office of Economic Opportunity. At the time the papers were written, the idea of putting together this anthology had not yet been born; nor were the authors writing with any particular attempt to relate each paper to the other by any consistent point of view, outcome, or style of writing. This approach is basic to the work of the Hudson Institute; and it was conceived to give rise to a freer and more creative expression of variations in thought about extremely complex issues. This collection retains this characteristic: no attempt was made to edit it into a tight uniformity or to change the individual approach.

Many of the papers are in the form in which they originally appeared as Hudson Institute drafts; others were revised, condensed, updated or extracted from longer reports. Some important subject areas, such as education, are not included in this anthology, as the reports are to be issued separately.

It is hoped that this collection will prove useful to anyone who is approaching the question of poverty either as a novice or as one who has grappled with its problems for many years. Volume I considers American poverty problems and policies of the past, present and future; the philosophical and historical perceptions of poverty, income and income redistribution; the measurement and reduction of poverty; and the workability of some income redistribution programs. Volume II views aspects of low income in America: chapters include the areas of income and employment, the work force, housing, health, crime, food stamps, energy and economic development programs. An examination of public attitudes toward poverty and the characteristics of the poor and near-poor makes up the entire Volume III. The sections of this volume cover both the extent and depth of the American public's support for domestic social welfare programs and the social, moral and economic attitudes of the poor and near-poor. The International volume, Volume IV, which contains chapter studies of poverty and social welfare programs in five West European countries, Canada and Japan, was conceived as an instrument for broadening our own perceptions, here at the Institute, of worldwide problems and solutions; and it is being passed on to you with the same intention. As with all the chapters in this collection, no solutions have been offered; but many problems have been raised, issues sorted out and elucidated, often in new ways, and recommendations suggested.

Doris Yokelson

TABLE OF CONTENTS

VOLUME I:
AMERICAN POVERTY PROBLEMS AND POLICIES

A. POSING THE PROBLEM

Page

1. Theoretically: "Theoretical Considerations of the Poverty Problem" by Raymond D. Gastil 1

2. Historically: "Historical Attitudes Toward Poverty" by Herbert London 25

3. Pragmatically: "Showdown at Poverty Gap" by Jeffrey Marsh 59

B. PERCEPTIONS AND POLICIES

1. Public Perceptions of Need and Policy

a. "Welfare in a Money Economy" by Jane Newitt 69

b. "The 'Outdoor Relief' Controversy Revisited: What Have We Built on This Base-Line?" by Jane Newitt 89

2. The Measurement and Reduction of Poverty

a. "A Quarter Century of Poverty in the U.S., 1947-1972: Definitions, Change, Continuity" and the Future by Peter Karsten 99

b. "Revision of Poverty Standards Over Time" by Irving Leveson 143

c. "An Examination of the Several Efforts in the Past Decade to Predict the Future of Poverty in the U.S." by Peter Karsten 175

d. "Metropolitan Variation in the Incidence of Poverty" by Paul M. Bunge 183

Page

3. Income Tax and Income Redistribution

a. "The Meaning of the Income Tax" by Jane Newitt 201

b. "Federal Income Distribution Policy in the 1970s" by Irving Leveson 217

c. "A Hard Second Look at the 'Negative Income Tax'" by Jane Newitt. 231

d. "'Uncontrollable Expenditures': The Case of Social Security" by Michael Sherman. 249

e. "General Revenue Sharing and the Administration of Federal Grants-in-Aid" by Paul M. Bunge 301

POSING THE PROBLEM: THEORETICALLY

"Theoretical Considerations of the Poverty Problem"

by

Raymond D. Gastil

THEORETICAL CONSIDERATIONS OF THE POVERTY PROBLEM

Behind current proposals to help the poor, there is a long tradition of efforts by economists, political scientists, sociologists, and philosophers to develop theoretical arguments that would help in determining what efforts we should be making in regard to the poor, and why. This paper is an attempt to organize briefly at least some of this discussion.

In defining the problem of poverty we must first discover what it is that bothers us. In the 1960's the key question was one of equalizing opportunity. The War on Poverty was launched by a law on Equality of Opportunity. In the 1970's many persons have shifted their concern from opportunity to improving directly the standard of living of the poor through transfer systems or the upgrading of services available to them. For some, the national objective is to raise the standard of living of all persons above an absolute level of deprivation, thereby eliminating, for example, deaths related to malnutrition or grossly inadequate medical care. On the other hand, a poverty problem exists when the standard of living of a segment of the population falls below a certain percentage of the median income,* with resulting psychological deprivation and alienation. If so, then the solution must lie in policies that create a greater equality of incomes. The normative arguments as to why we should eliminate poverty range from utilitarian (to enlarge markets, prevent riots, improve human resources) to arguments and from concepts of justice, right, or excellence.

---

*This has generally been below half the median income. In addition to previous Hudson work (L. Rockett), see Christopher Jencks, Inequality, Basic Books, New York, 1972, p. 4 and note.

Equality of Opportunity

Although in theory there are good arguments against unrestricted equality of opportunity, it is the fundamental understanding of our society that opportunity should be equal and open to all under the law. As Gunnar Myrdal pointed out in An American Dilemma, there is an irresistible pressure in the system to remove inequalities in the legal sense. However, when efforts to equalize lead to reverse discrimination, points are raised that call into question the fundamental commitment.

In many cultures equality of opportunity was provided by periodic land redistributions. The idea was to periodically give each family an equal start by giving equal shares of the village land. Effort would then be directly rewarded by differential income.* In our society we have emphasized the same principle with the Homestead Act, a relatively open market economy and free public education. Efforts have also been made to make up for inequalities through reverse discrimination. Special advantages to veterans in education or job placement, and special federal support of agricultural areas to make up for general deprivation are older examples of reverse discrimination. In more recent times the use of quota systems supporting reverse discrimination in education and jobs have been developed in relation to race and sex. Reverse discrimination is intended to reestablish a basis from which a true contest in terms of ability and effort can take place.

Reasons for wanting to increase equality of opportunity seem at first glance to be obvious. Since by definition equality of opportunity allows the best to rise to the top, or the best possible matching of people and positions, the efficiency of society is enhanced, and the frustration of individuals is reduced. Social stability should be enhanced by putting the most capable in power. Normatively, ethicists such as Rawls (see note below) have argued that from the social contract point of view a rational man would desire a society in which there is an equal right to compete for status and primary goods within society.

---

*Cf. Bertrand de Jouvenal, The Ethics of Redistribution, Cambridge University Press, 1952, pp. 5ff.

However, recent forms of reverse discrimination raise problems about what we mean by equality of opportunity. Until recently, equality of opportunity has been an individualistic concept. Each person was to be allowed to compete in terms of his own abilities, or granted special opportunities to show what he could do because of blocks to free competition. Now, however, we find that the sons and daughters of wealthy blacks from private schools receive scholarships and preferential admission because their race is disadvantaged. We find that Jews from poor families fail to receive academic positions in spite of superior qualifications because daughters of professors are what the university is hiring this year. The result will be a more just society in aggregated figures, but this concept of group or category equality moves us away from the individualistic concept of equality of opportunity.

Recently, other problems with our naive belief in equality of opportunity have arisen that are taken very seriously.* First, it has been pointed out that a society in which the best were really at the top would lead to isolated intermarrying groups that would come to be characterized by distinctly different abilities. Society would then come to be divided into a master and a servant class. This is the opposite from the result the proponents of equality of opportunity had in mind. They had forgotten that inequality of opportunity made it possible for all classes and subgroups to have a mixture of abilities. Secondly, with real equality of opportunity, those who were at the bottom of society would lose all of the comforting beliefs with which they and others now shelter them (with some justice) from a realization of their inferiority. To enhance the self-respect of a Negro by making it possible for him to succeed may be to reduce the self-respect of his brother who with the same opportunities fails. Equal opportunity also raises the level of personal insecurity at all levels. For now the children from above the median have a good chance to fail, while those below the median will feel that they cannot relax because with a little more effort they may succeed. For until it sorts itself out into a master and servant class, there will be a distinct loss in not knowing where you belong. Finally, equality of opportunity ignores the probable fact that the frustration of unhappiness that accompanies downward mobility is not matched by the joy of upward mobility. Thus, to maximize happiness in a society may not mean unrestricted mobility based upon opportunity.

---

*See especially Daniel Bell, "On Meritocracy and Equality," Public Interest, (Fall 1972), pp. 29-68, and John H. Schaar, "Some Ways of Thinking about Equality," The Journal of Politics, 26 (1964), pp. 867-895. It is interesting that, as far as I know, this whole range of considerations has been raised in our time primarily through a novel, Michael Young's The Rise of the Meritocracy.

Equalizing Income

The attack upon the high priority of improving equality of opportunity is related to a new analysis of the reasons for inequality of income, and the poverty that results from it. In conventional economic models it has been assumed that inequality was due to a combination of greater capability and effort relevant to satisfying the needs of others. Only a few had the ability to grasp opportunity and organize for major breakthroughs in production or service (such as Henry Ford or Colonel Sanders). These few received the great fortunes, while those capable of only following and working for these received much less. Those with fortunes were also rewarded for their willingness to take great risks in hope of great advantage. At the opposite end of the spectrum the poor were those who had little to offer in ability or effort.*

The reasons for these differences in useful capability or output were thought to be in some combination of biological capability, cultural background (especially family), and luck. Discrimination based on at least individually irrelevant cues such as sex or race was thought to be an inefficient interference with the sorting out of people in terms of their contribution. If this analysis was correct much could be done to equalize income by eliminating economically irrelevant discrimination and reducing cultural differences through education. Some biological difference would remain.

Ethicists have generally questioned the claim that inequal incomes can be justified in terms of differences in ability and effort, for in a deterministic universe these are largely determined by choice of birth and

---

*See Ludwig von Mises, Human Action, 3rd. Rev. Ed., Henry Regnery, 1966, pp. 288ff., 314ff. F.A. Hayek, The Constitution of Liberty, University of Chicago, 1960, pp. 39-53, *passim*.

background for which the individual has no right to be rewarded.[*] So if there is inequal reward, it must be for economic rather than moral reasons, relating to such things as motivating people to greater effort, the efficiency of allocating people of different abilities to different positions in society in terms of relative scarcity, or the encouragement of risk-taking in hope of reward.

It is important to note the importance of the concept of a deterministic universe. When critics such as Bell and Kristol are alarmed at the lack of attention given to rewarding work or effort in the current philosophical discussion, they are evidencing a popular feeling, but not a position that is generally accepted even by conservative intellectuals. The conservative intellectuals do not imagine that there is a very direct relation of reward to merit; it is what society wants and the scarcity of the value that determines recompense. It is also generally assumed that what makes an individual succeed, including his personality traits, has nothing to do with his personal will. Freedom is reduced to choices such as those between goods such as leisure and money, or consumption and savings. Nearly all ideological positions agree that some differential returns are necessary to insure sufficient work and savings with our institutions. On the other hand, there is no doubt that, "...we live as though people deserved praise and blame, reward and punishment....It may be that personal responsibility is just one more inherited talent, but even so it is still uniquely appealing to tie our system of rewards and punishnent to it."[*]

---

[*] Cf. Hastings Randall, The Theory of Good and Evil, I, Oxford University Press, 1907, pp. 242-260. Here Rawls would agree with F.A. Hayek, *op. cit.*, pp. 85-103.

There is a paradox here that I will only touch on for I do not fully understand it. Most ethical writing is based on a radically indeterministic view that gives full choice to actors in deciding to help or not help the poor.[**] Yet the same ethicists do not use this point of view in understanding a reciprocal responsibility of the poor to work. This anomaly apparently results from the lack of intersection of two planes of analysis: ethical discourse relating to individual responsibility requires freedom while scientific explanations of why the poor are poor requires a large degree of determinism. In any event, ethical action is generallv not thought meritorious but a source of rational pleasure. So as discussed in the ethical context there is no praise or blame on either side of the poor-non-poor relationship.

Returning to the discussion of the relation of opportunity to equality, a new dimension has been established by recent evidence that differential income may be related much less than was thought to remediable differences. First, there is now overwhelming evidence that family background is much more important than school systems in determining educational performance.[***] The possibility of genetic differences has now come to be reaccepted as an important limit on what can be done in equalizing the performance of individuals, if not races.[*] But even to the extent that education can be equalized, this would not equalize incomes. A prominent study of the relation of income to education and other remediable factors concludes that chance is a critical determinant of differences in income.[**] For example, brothers raised in the same families end up with surprisingly different incomes. Therefore, even if we could equalize opportunity in all of the ways that the reformers suggest, with the present economic system there would still be great inequalities in income.

---

[*] Walter Blum and Harry Kalven, Jr., The Uneasy Case for Progressive Taxation, University of Chicago Press, 1953, pp. 82-83.

[**] E.g., Alan Gewirth, "Obligation: Political Legal, Moral" in Political and Legal Obligations, Nomos XII, Atherton Press, 1970, pp. 55-88.

[***] The Coleman Report of the Sixties received its latest analysis in F. Mosteller and D. Moynihan (eds.), On Equality of Educational Opportunity, New York, 1972. International confirmation comes from the results of the first comparative study of educational performance. See Robert Thorndike, Reading Comprehension Education in Fifteen Countries (Vol. III of International Studies in Education), John Wiley, New York, 1973, especially pp. 177-178.

These considerations have led the liberal proponents of programs to aid the poor to join with those radicals who see inequality of income as a matter of pure power differentials, and those conservatives who accept some responsibility to the poor but want to reduce government power, to recommend that poverty be eliminated simply by giving more money to the poor under a guaranteed income plan with some negative income tax features.

This turns the modern discussion back to the old question of the desirability of equalizing incomes that was so important a part of the left-right discussion before the 1940's. Following from the Jencks's argument above, the distributive justice argument is that since differences in income are largely due to chance, the state should redress the balance for the poor, just as it aids the survivors of a natural calamity. A normative utilitarian argument is that if marginal income is spent on those goods most desired by most men, then to increase income from $2,000 to $2,100 adds more happiness than to increase it from $2,100 to $2,200.* There is thus a declining utility curve for money. The result is that the maximum happiness of the whole society can be attained by adding to the income of the poor. (Although since there may be greater disutilities to reductions than utilities to gains, you might find it best in a growing economy to not take from the rich, but simply reduce their increases.) This seems to be related to the maximum calculation of John Rawls's rational man in the original position (see note below). For if Rawls concludes that the rational man will want inequalities in income to be justifiable only if they increase the direct or indirect income of the poorest, then he is accepting a form of the argument that there is a declining utility curve for money. There is still another argument for equalizing income that is based on a vision of society in which income equalization is a device to increase a sense of community of the members of society and to divert their attention from considerations of material reward. We will return to this position below.

---

[*] Although the work of Jensen, Eyseneck, Herrnstein and others has been heavily criticized, Jencks (op. cit, pp. 64-83) accepts the importance of genetic differences, at least for individuals.

[**] Jencks, op. cit., especially pages 1-15, 253-265. See also discussion by Bell, op. cit., and Ernest van den Haag, "The Tortured Search for the Cause of Inequality," National Review (February 16, 1973), pp. 200-203.

Balanced against these arguments for equalization are a wide array of arguments that support the maintenance of income differentials. The first is the efficiency argument already alluded to.** Income differentials can be used to obtain a balanced supply of skills and to motivate people. Analysts making these arguments generally add that the end result of inequalities is thus to eventually increase the income of the poorest groups through growth in the economy as a whole. Most egalitarians accept this argument, but play down its importance, especially at present levels of affluence. As a supplement to the efficiency argument, it is also frequently claimed that an equalization of income would reduce creativity, for most new items of consumption are developed first for the few as luxury items, and only after testing here do they become available to the general population.*

---

*See Abba Lerner, The Economics of Control, Macmillan, New York, 1944, pp. 27-57, as well as Blum and Kalven, op. cit.

**Cf. Ludwig von Mises, op. cit., or any economics text.

Income equalization is also opposed by those who see the right to strive for a superior income as a basic liberty, or take the stronger position that this right is inseparable from other basic liberties.** It is one thing to believe that material goods should not be an important aspect of a man's life, and another to say that he should not have the right to exchange leisure, security, education, or other values for material goods. (Exchange for leisure is widely accepted by all camps.) The conservative version of this argument would add that equalization would also destroy the right and responsibility that a man has to care for his family, and the principle of equal reward for equal effort upon which society is built.

---

*This is argued especially persuasively by Bertrand de Jouvenal, _op. cit_., pp. 38ff.

**The most vigorous presentation of this viewpoint is in W.G. Sumner's _What Social Classes Owe to Each Other_, Harper and Bros., 1920 (1883). He asserts: "The principle of the contract society with liberty is that each man is guaranteed the use of all of his own powers exclusively for his own welfare," (p. 34). He later adds family. Cf. Rawls's contract (note).

A very different perfectionist (see note) critique of equalization is offered by Bertrand de Jouvenal.* He argues that consumption can itself be creative, and that all consumption cannot be granted the same value. A person can tour Italy to study architecture or to relax in the sun. One can spend his surplus on prostitutes or on maintaining a country estate. It is the more refined taste developed by the wealthy that has supported the arts and kept alive superior workmanship. Equalization, de Jouvenal argues, would either destroy the superior consumption, or the state would take over the role of the wealthy. But if the state uses the surplus it takes from the wealthy to support superior consumption, then it loses the original justification for the equalization policy. (This is the reason that Rawls, following the logic of this argument, rejects aid from the state for high culture. See note.)

De Jouvenal is thus laying the basis for the libertarian critique of equalization. For the libertarian emphasizes a belief that nearly all camps accept that an attempt to equalize incomes through the state necessarily leads to an expansion of state power, and a reduction in individual rights and flexibility that extends beyond purely income shares.

There have always been arguments against emphasizing material satisfaction. De Jouvenal points out that the ancient approach to the problem of comparing poverty to riches was for everyone to become poor. Given available wealth the approach was more realistic, and wealth and its pursuit was regarded as positively evil. A material society necessarily leads for most to perennial dissatisfaction. A more modern way to arrive at the same conclusion is to emphasize the need to stop productive increases to preserve the ecology, world resources, or living space.

---

*De Jouvenal, op. cit., pp. 54ff.

Galbraith's emphasis on public versus private spending is a version of the older socialist belief that society should be conceived in familistic rather than individualistic terms.[*] The hope was to create a society in which people came to see the interests of others as of as much concern as their own. The emphasis was not to be on "getting" what one deserves so much as on "giving" so that others may have what they need. Giving to the poor, therefore, does as much for the giver as the receiver. In these terms Peter Singer argues that we have an obligation to give up to the limit of our own starvation to relieve the starvation of the people of Bengal. In his remarks later on Richard Titmuss's The Gift Relationship, Singer concentrates on the moral superiority of a society (UK) in which giving blood is placed outside of a commercial relationship as an altruistic free gift.[**] Similarly, John Rawls hopes that adopting the difference principle (see note) for legitimating inequalities through their contribution to the welfare of the poor will change the attitude of men toward one another in a familistic direction.[***] For these socialists of the older school the problem of poverty is one of alienation at all social levels, and poverty programs are conceived as a way to help everyone.

---

[*] De Jouvenal, op. cit., pp. 8ff.

[**] Peter Singer, "Famine, Affluence, and Morality," Philosophy and Public Affairs, 2, 2 (1973), pp. 229-243; and "Altruism and Commerce," Phisolophy and Public Affairs, 2, 3 (1973), pp. 312-320.

[***] John Rawls, A Theory of Justice, Harvard University Press, 1973, p. 105.

There remain, of course, reasons to continue to emphasize material progress and efficiency. It seems to be the case by general observation, detailed findings, and theoretically that most people, and especially poor people, are happier in an expanding, growing society and economy. There is more opportunity to lead as one grows older in a population pyramid than a population cylinder. There is more to look forward to if wages double every few years, at the very least there is apt to be more novelty. And if there is a larger economic pie, there will be more for the poor with any fixed distribution scheme, and the moderately well off are less likely to begrudge the poor their share.

This view of the importance of production is particularly significant if we look at the world as a whole, and imagine the "wealthy" as perhaps 200 million people in the developed countries and a million or two elsewhere. Were the production for the needs of these people turned off by a different attitude toward the value of material goods, it may be feared that the two billion desperately poor in the world would not be able to raise themselves up. To the underdeveloped world a decline in the demand for Arab oil, Brazilian coffee, Argentine beef, Chinese rice, and so on, would be catastrophic.

There is also, of course, a defense question. Galbraith has always felt that defense needs were greatly overestimated, and this made his proposals possible. But if we feel that we are in a hostile world in which the arms race is really not going to be turned off, we cannot accept a non-material society, no matter what its theoretical attractiveness.

In Kind or In Cash?

Since by middle class standards the poor have inadequate health, nutrition, education, and recreational opportunities, most agree that we owe them something. As St. Thomas Aquinas writes:

> ...according to the natural order...material goods are provided for the satisfaction of human needs...whatever a man has in super-abundance is owed, of natural right, to the poor for their sustenance....The bread which you withhold belongs to the hungry; the clothing you shut away, to the naked; and the money you bury in the earth is the redemption and freedom of the penniless.*

Although the last line speaks of money and freedom, it is in the context of bonded indenture and slavery. We have a duty, then, to give part of what we receive to those much less fortunate, but it would seem to be to improve their condition rather than to equalize incomes for its own sake.

The argument for fulfilling our obligations to the poor through providing goods and services rather than money rests, first of all, on the assumption that part of the problem of the poor is their inefficient use of money. This is the reason why low family income has much less than a perfect correlation with the provision of poor education to children by family actions, with poor medical care, and poor nutrition. It is an inefficient use of money to give an alcoholic mother more money to buy food for her children. The children would better be given free food that cannot be turned into money (e.g., free lunches).** Some ways of providing goods in kind would also have the advantage of avoiding discrimination against the near poor in favor of the poor. A free medical system or educational system available to both groups is preferable from this point of view to giving money to people at the poverty level to pay for these services if they desire them.

---

*Quoted by Peter Singer, "Famine, Affluence, and Morality," Philosophy and Public Affairs, 2, 2 (1973), pp. 229-243 (239).

**A socialist, Marc Kelman ("The Social Costs of Inequality," Dissent [Summer 1973], pp. 291-298) argues that goods and services should be given the poor because housing, education, and medical care are not available in poor areas. Money could much more easily be spent on frivolous consumption.

The argument for replacing goods and services with money makes for some remarkable ideological allies. Milton Friedman has proposed the negative income tax to increase the area of freedom and responsibility open to the poor.[*] Since in his rejection of paternalism Friedman asks us to identify wants and needs, providing money seems the only way to insure that the poor get what they really need. He would argue that giving goods and services ignores differential need, personal habits in food, housing, clothing, and so on. An older generation of conservatives would agree with William Graham Sumner that nothing is owed those who demand aid from the better off, that the poor exist by our sufferance, and that they must understand that by asking for aid they have bartered away their freedom of choice.[**] Thus, while Friedman would use the economic motivation of a 50% negative income tax (compared to the 100% tax of some welfare systems), older writers such as J.S. Mill or Sumner would use the tyranny of the welfare system as an incentive for the poor to get off welfare.[***] Radicals at the opposite extreme propose systems similar to Friedman's in the belief that the poor have a right to a more equal income, and it is no business of anyone how they spend the money they deserve. Moreover, they believe it is an error to believe that any considerable part of the problem of the poor is related to poor use of money.

---

[*] Capitalism and Freedom, 1962.

[**] Sumner, op. cit.

[***] John Stuart Mill, "Caring for the Unfit: The Poor Law," in Robert Will and Harold Vatter, Poverty in Affluence, Harcourt, Brace and World, 1965, pp. 63-64.

Conclusion

There isn't any conclusion. I only hope that as the readers develop suggestions for ameliorative programs, that they will be able to relate what they are proposing to do, or not do, a little more closely to the background of argument that encompasses the problem.

A Note on Ethics and John Rawls

Philosophers conventionally divide ethical theories into teleological and deontological (non-teleological). To construct a teleological theory one decides what is good first, and then decides on ethical principles and rules in terms of how to achieve the good. To construct a deontological theory one decides on the question of what is right first, and other social goods are then decided on separately, outside of the ethical purview. Teleological approaches are generally either utilitarian (hedonistic in most usages) or perfectionist. The latter emphasize the improvement of man in terms of values such as art, culture, knowledge, or style. Rawls chooses a deontological approach.

?

Ethical theories may also be intuitive or non-intuitive. An intuitive theory is one that advances several basic intuitions of what is good or right (depending on whether it is teleological or not), and suggests that the decision-maker can do no better than balance these intuitively. A non-intuitive theory is based on an assumption that there is a single discoverable basis from which one can decide ethical issues. It is typical of non-intuitive, deontological theories that they look to an original hypothetical contract situation or a single basic axiomatic statement. "Do unto others as you would have them do unto you" is perhaps the first such statement, and Kant's categorical imperative and Marcus Singer's Generalization Principle are only refined versions. The contract approach has also been used by Kant, Locke, Rousseau, and now John Rawls.

If we look at a broader field than ethics, we will find that three major traditions have played a part in constructing designs for an ideal society in modern thought: the utilitarian, the socialist, and the classical liberal. The utilitarian's claim is that whatever benefits society as a whole is in the interest of all, and thus he is able to test institutions primarily according to utilitarian criteria of efficiency. In our day this is the doctrine of the technologists. Socialists have qualified the utilitarian approach with a belief that since inequalities prevent most people from receiving their fair share of goods, the first goal of society must be to eliminate inequalities. The liberals have added to utilitarianism an additional belief that personal freedom is defensible on intuitive grounds as an inalienable right irrespective of efficiency.

John Rawls has attempted in A Theory of Justice to use the tolls of philosophical ethics to combine these three traditions to form a new ideological basis for a better society. Since the tradition that is most widely accepted in philosophy and society as a whole is the utilitarian, Rawls sees his main task to be apparently that of proving that the just society must include elements taken from the socialist and liberal traditions as well as the utilitarian. He points out that recently most philosophers have been content to tack a few intuitional restrictions onto unfettered utilitarianism, and maybe this is the best one can do. But Rawls would like to go further and discover a more rationally acceptable basis from which we can deduce the outlines and rules that must govern the just society.

Rawls approaches this task by imagining men deciding in the contract tradition on the principles that will govern society. Rawls specifies that the men are individualistic, rational and free of envy. In the original position from which they make their decisions on the form of society, they have no interests as personalities, for they are behind a veil of ignorance that hides from them their own relative abilities or other differentiating qualities. Therefore, the persons signing Rawls's contract are not interacting persons balancing interests, but individuals judging what would be the probabilistic best society for themselves, knowing that they will have both universal needs and differentiated personal interests. For behind the veil of ignorance one does know whatever is known of the nature of man and society in general.

Given this situation, Rawls believes that the first rational choice would be for the individual to want an equal share of all of the primary goods people generally want. Rawls specifies as such goods, rights and liberties, powers and opportunities, income and wealth, and self-respect. He then finds that the shares of all persons of these primary goods might be greater if inequalities were introduced into the system. If so, then inequalities can be allowed in any primary goods as long as the inequalities increase the shares of all--or particularly the shares of those with the fewest primary goods. This is the difference principle.[*] Rawls argues that the selection of this maximum principle is appropriate when there are largely unknown probabilities of different positions in an unknown range of outcomes, where the interest of the average subject in avoiding disastrous outcomes is much greater than that in obtaining particularly favorable ones, and where there may be unacceptable outcomes with choice strategies other than maximum.*

---

[*] See especially pp. 75-78.

To this point I find Rawls persuasive. Less persuasive is the next step in which Rawls divides primary goods into two categories: (1) rights and liberties, and (2) all other primary goods. He then claims that men in the original position will decide that once a minimum standard of living is obtained such that liberties become meaningful and biological necessities are obtained, there should be no further trade-offs between primary goods in the two categories, and the extension of rights and liberties will have priority over other primary goods. In part this case is unpersuasive because it is based on a doubtful psychological theory similar to Maslow's need hierarchy that assumes that as men progressively meet needs in the second category, they will place increasing value on pursuing highly differentiated spiritual and cultural interests. In this evolving society Rawls believes that the primary good of self-respect will rapidly become one of the most important, and only a high order of equalized liberty can assure self-respect for all. Another part of his case for the primacy of liberty is that this accords with the basic insight that in the original position one will decide that it is not ends but rules of procedure that should be in the contract. Liberties and rights are more toward the rules end of the spectrum of primary goods than the other goods.** It might also be argued that only equal liberties and rights have a decisive role in preserving the contractual conditions that apply to the other primary goods, and for this reason they must have priority. In any case, Rawls does not make a very organized case for his hierarchical ranking, although it may be justifiable.

---

*See especially pp. 150ff.

**See especially pp. 243ff and pp. 541ff.

Although there are both elitist and egalitarian tendencies to his analysis, A Theory of Justice is not radically egalitarian, and certainly not supportive of many elitist interests. Rawls's distributive qualification of utilitarianism allows his ideal society to prevent the enrichment of the wealthy at the expense of the poor. But few utilitarians are likely to have favored this result in any event. In fact most theorists that advocate accepting great inequalities see inequality as an efficient way to raise the standard of living of the poor. Rawls's difference principle, that the poor must always be helped to justify an inequality, doesn't affect such theorists who assume that inequality is necessary for progress--a general assumption of almost everyone who thinks about the subject. Rawls is anti-progressive in the sense that he gives no explicit credit to progress or economic growth beyond a minimum. But since he is always willing to help the poor through economic growth, this doesn't have much practical relevance. Strangely, the greatest practical difference that adoption of Rawls's approach would make is that his good society would reject the idea of taxing people to pay for high culture just because high culture is a good thing in someone's estimation. Essentially everyone would have to agree on those expenditures that do not assure liberty and the improvement in the primary goods ration of the worst off.*

---

*See p. 332 and the foregoing section.

Why, then, is there so much interest in Rawls? First, he is a philosopher seriously considering present day interests in the grand theory tradition of philosophy. This has been very unusual in this century. Secondly, in detailed discussion of particular sub-issues Rawls is often interesting, always learned, and generally supportive of modern liberal causes. His philosophical support of civil disobedience is a particular source of his popularity. And third, both his friends and critics seem to be reading much more egalitarianism and opposition to material progress into Rawls than is implied by at least the formal structure of what he writes.

It should be particularly noted that ideological blinders and selective inattention have caused both Kristol and Bell to seriously mistake what Rawls is saying. Kristol writes, for example, that Rawls believes that "an order is just and legitimate only to the degree that it is directed to the redress of inequality," and marvels that no one considers this controversial. Kristol then goes on to contrast the stance of intellectuals such as Rawls with a working class view that individual liberty, security, and material prosperity are still legitimate goals for society.* Rawls is much closer to the view attributed to the working class than to the view attributed to him.

Many have pointed to what they feel to be flaws in Rawls's work. The most obvious difficulty is that the decisions in the original position are no more than plausible. Would a person in the original position be rationally compelled to choose a maximum strategy? He might prefer to go with expected probability. Would he choose this list of primary goods? Would he be that interested in liberty, or is it rational to suppose that there is a good that liberty leads most men astray from? A variety of more particular and less technical criticisms have been raised. He has been condemned as still too utilitarian, accepting something like a cost-benefit analysis with insufficient, intuitive controls. The ecologist would see Rawls as too man-centered. The socialist sees him as too individualistic and materialistic in his choice of primary goods. Many believe that the good cannot be defined only in terms of what a simplified man would want, that most men must be led by those with perfectionist standards.*

---

*See Irving Kristol, "About Equality," Commentary (November 1972), pp. 41-47. Daniel Bell makes much the same mistake in 'On Meritocracy and Equality," The Public Interest (Fall 1972), pp. 29-68 (63).

A final personal note. Paul Ramsay originally suggested Rawls to me as the one man who in our time might establish a social consensus, and I do not take Ramsay's advice lightly. With my lack of experience with this kind of material I originally found Rawls an impossible book to read straight through. But the more I circle back to read parts of it after reading other things, the more I find it possible to read, and the more I find I agree with it. Needless to say I still have a long way to go on both counts. Since some philosophers have told me that the book is disappointing to them, it probably isn't the answer. But I believe one can learn a lot from taking it seriously, that it takes a great effort, more than I believe I can justify, to understand the best work of this kind, but that it is impossible to enter much of the intellectual debate on the just society, how much we owe the poor, and so on, unless we make the effort.

---

*For general reviews see: Hans Oberdiek, "A Theory of Justice," New York University Law Review, 47, 5 (Nov. 1972), pp. 1012-1028 (the best review). Leonard Choptiany, "A Critique of John Rawls's Principles of Justice," Ethics, 83, 2 (January 1973), pp. 146-150. Harry Bredemeier, "Justice, Virtue and Social Science," Society (Sept.-Oct. 1973), pp. 76-83. For more specific critiques see Adina Schwartz, "Moral Neutrality and Primary Goods," Ethics, 83, 4 (July 1973), pp. 294-307. Brian Barry, "John Rawls and the Priority of Liberty," Philosophy and Public Affairs, 2, 3 (1973), pp. 274-290.

POSING THE PROBLEM: HISTORICALLY

"Historical Attitudes Toward Poverty"

by

Herbert London

This chapter was originally issued as a
Hudson Institute Paper under the same
title, dated July 1, 1974, HI-2099-P

Introduction and Disclaimers

Before one tackles so general a proposition as attitudes toward poverty, it is only natural, indeed imperative, that the author make those disclaimers that narrow his area of concern and anticipate likely criticism. Since the sections that follow trace attitudes over a three-hundred-year span, and since specific, and hopefully, representative examples are cited, there is an inferential comparison of attitudes in American history and between various locales at different times. It is this comparison--even if only inferential--that suggests the first methodological caveat. According to many experts in the field, there is no real distinction between "absolute" and "relative" poverty, notwithstanding the jargon that insists on a "poverty level." Poverty can only be regarded as a general form of relative deprivation. In comparing attitudes toward poverty, therefore, what one actually examines is the social context in which poverty exists. Nutritional needs, for example, are related to the demands of occupations and of leisure time. Health needs are influenced by longevity; education by social expectations; and self-actualization--to use Maslow's phrase--by surplus income. It is inappropriate to discuss the poverty of one locale at one moment in history without relating it to the historical development of the nation. And even then, what must be considered are those dependent variables, such as war, prosperity, inflation, that give poverty definition.

A second caveat involves the legislative policies regarding dependent classes from which attitudes about the poverty issue are sometimes derived. Although policy could and often does reflect popular will at at a given time, it is also the manifestation of bargaining and logrolling and other perfectly understandable political devices that make research conclusions of the kind proffered here somewhat tentative. Legislative decisions, especially in the area of aid to dependent groups, reflect a concern for local constituencies, potential coalitions, and compromises. As such, they are not always an accurate barometer of national attitudes, and on occasion they are little more than the view of legislators who do not speak for their constituents on the issue of welfare assistance.

Part I

Origin of "Aid to the Poor"

The English experience with poverty quite naturally had an influence, albeit not always a direct one, on American attitudes toward the poor. Tudor legislation on poverty, notably the Poor Laws of 1597-1601, was to be invoked if the situation exceeded the capacity of private philanthropy, and only then. Despite the widespread poverty in the sixteenth century, the main burden of support rested with benevolent citizens. There was a dramatic acceptance of social responsibility by an extraordinary number of private citizens, many of whom were affluent and others of only moderate means. It was through this charity that an ethic of social responsibility emerged, an ethic that was ultimately to be the hallmark of liberal society.

This tradition of social responsibility was reinforced by the compulsions of Calvinist social concerns. In particular, the stress on the stewardship of one's wealth had much to do with developing habits of philanthropy. This Evangelical spirit coincided with the economic revolution and population explosion in England and the attendant growth of cities, surplus labor, and strained social structure. Conditions were generally so bad from the sixteenth to the nineteenth centuries that many accepted a surplus labor force as an immutable situation. Since Englishmen were increasing at the rate of fourteen percent per decade after the eighteenth century, there was prima facie evidence to support the conclusion. Most middle- and upper-class Englishmen accepted "the poor" as a given, a permanent element of the social structure, a large stratum from which only a few could rise in each generation. It was argued in word and deed that the vast majority must make their own terms with the inevitable and carry their burdens without depending on others. To assist the poor unduly was simply "to pauperize," to make public charges of those quite capable of caring for themselves.

Charity was restricted to the benefactions of philanthropists, whose motives were a mixed bag of generosity and perniciousness. The major form this eleemosynary zeal took up to the mid-nineteenth century was the charitable trust, the gift or bequest made in perpetuity for charitable purposes. Since English law was indulgent toward this kind of giving, that practice continued--in fact still continues--as a way of fashioning "good works." These trusts were an asset of incomparable value in their time, but they also beclouded the issue of industrialization. With industrial society, it was clear that the adequacies and inadequacies of individuals sometimes had little to do with their condition of poverty. As such, the shortcomings of private charity lay exposed. Trusts could assist individuals by haphazardly establishing agencies to combat disease, poverty, old age, and other afflictions of the human condition, but they could not cope with the assumption that modern society creates a helpless mass of unemployed people who depend on the state for survival. In fact, it could be argued--and was--that what the philanthropists denied to their workers in the form of higher wages they gave in charity to the poor.

Transplantation

As R. H. Bremner suggests, "the tradition of philanthropic service was easily transplanted in the New World." There were signs of it in Cotton Mather's claim that Boston's aid to the poor was "well and favorably known in Heaven." However, without the feudal posture of noblesse oblige, philanthropy was treated with suspicion. There is something about it that goes against the grain. "Help others, but don't take help in return." We expect the wealthy to contribute to good causes, then we question their motives or deplore the way their wealth was acquired, or we wonder if the gift does more harm than good. The givers are "bleeding hearts" and sentimentalists, yet we recognize the institutions their money has built as major social advances.

Since this country was founded on a scarcity of labor, as opposed to the English labor surplus, it was accepted from the outset that poverty was unnecessary. Where poverty existed, it was a function of varying ability and incentive to work. In both cause and cure, the fate of poverty was up to the individual. Poverty could be a goad to success or a penalty for failure to compete; it could be the incentive for Lincoln or the breeding ground for criminals.

For the Puritans, self-help in economics was closely related to the spirit of religion. Salvation through personal regeneration was based on the idea that heaven was open to those who proved themselves worthy, just as financial success was possible for those who had faith in free enterprise. "Good works don't make a good man, but a good man makes good works." All that is necessary in this system is the freedom to demonstrate one's goodness, as it was predestined by God. An ethic of individual responsibility provided the psychological attitude, personal discipline, and rationale for a faith in advancement. Poverty, when it existed, was not ignored; but it was considered a providential decree of a person's weakness. Its cure, therefore, was a heightened sense of personal responsibility; and when that was not possible, as in the case of the infirm, individual responsibilities would be assigned to care for those unable to care for themselves.

Up to 1776, the basic conception of philanthropy was that almsgiving was not designed to assist those in need of help but as a means of demonstrating one's goodness and virtue in the eyes of God. Cynics might even suggest that, for many Puritans, poverty existed so that they could demonstrate signs of "election"; and charitable contributions nourished the idea of salvation for the giver and damnation for the donee. However, a faith in the Enlightenment tradition and its inspirational view of independence generated a belief in the perfectibility of man. From this stance, the person requiring aid was the challenge, and his assistance was not so much charity as a means by which society acted to improve itself. Universalists and Unitarians in the nineteenth century, proclaiming neither earthly want nor predestined damnation, argued that man could purify himself of the "bad habits" that led to indigence. And this might be achieved by a "personal determination to avoid evil," e.g., vices, and move toward the path of morality and self-discipline. Although the theoretical cause of poverty differed for Puritans and Unitarians, the cure of personal discipline and responsibility was one and the same.

Darwin and His Critics: A Nineteenth-Century Ideal

While the eighteenth and much of the nineteenth centuries relied on rational or transcendental religious thought to justify the ideal of the "independent man," it took the Darwinians to assert this ideal as a scientific axiom. According to Herbert Spencer and his disciples, protecting the poor in their struggle for survival was tantamount to the weakening of the species. Darwinism invested the previous ideal of self-reliance with an even greater purity. An article of faith had it that, by removing barriers to equal opportunity, the nation was sufficiently open so that the common man could become the self-made man. With these barriers eliminated, only personal weakness could explain failure. Therefore, no rights were accorded the poor; relief was still a Christian duty, but it was an act at the discretion of the donor and not an act demanded by the recipient.

Darwinism combined with the shibboleths of the Gilded Age to make laissez-faire and self-reliance fundamental laws of nature and God. But there were critics of the notion and competing attitudes born of conditions and traditions. However much the creed of self-help reigned, there was the derivative Christian ideal of communal assistance for the downtrodden. Many Protestants contended that their Christian obligation compelled them to make the church and gospel relevant for the underprivileged. Others believed in the redemptive possibilities among the poor. In the late nineteenth century, it was apparent that charity reform conflicted with the spirit of individualism. This was the essential paradox in the national mood toward poverty: A desire for its elimination was seemingly incompatible with the self-reliance demanded of industrialization. Similarly, with the depression in the 1870s and the 1890s, critics claimed that no laborer was as free as formerly to determine how or whether his work would be rewarded. As class lines became more rigid than before the Civil War, and as hard-working men joined the ranks of the poor, a demand for relief from the assumed natural laws of laissez-faire gained support. The growth of private insurance plans, settlement houses, and state relief agencies in the 1870s reflected a public desire to hedge the bets on self-reliance.

Social Gospel

Although competition remained the orthodoxy of capitalism, there evolved an ideological view that scorned competition as unethical and irresponsible. Christian Socialists viewed poverty as a problem capable of solution if only "unwholesome individualism" could be controlled. They argued that the "invisible hand" of individual enterprise and the consequent concern for self-interest could not serve to bind men together for mutual benefit. Their conception of poverty was translated into charity organizations that attempted to redeem the poor and eliminate street begging and vagrancy. But they did draw an obvious distinction between poverty which was unavoidable and pauperism, which was deemed avoidable and wasteful. It was the latter notion that concerned the reformers because, presumably, it was capable of solution. The "work test," "the test of a man's willingness to be a man," the test that distinguished the worthy from the unworthy, was the litmus test for poverty at the turn of the nineteenth century. But the socialists and charity reformers maintained that the work test ignored the degradation brought on by industry and the indifference and selfishness parading under the banner of national shibboleths. For these reformers, the poor were victims of social disintegration. As "helpless pawns of industry," the poor were not only without money, but they were lonely, isolated, and friendless. While the mid-nineteenth-century charity gave "bread and coal," the reform voices of the twentieth century argued for a "hand, heart and brain." When William Graham Sumner, the ultimate Darwinist, asked, "What can one social class demand of another?" and answered "Nothing can be demanded," the reformers retorted, "Goodness, morality, and religion impose obligations." The reformers rejected Sumner because they viewed a society not as each against all but as an organic entity, in which the misfortunes of one affected the fortunes of all. Yet it was transparently clear that the utopianism of the reformers did not always jibe with the complex reasons for poverty. The Social Gospel assumed that moral weakness caused shiftlessness and degradation; despite "scientific investigations," this was not easily proved. Similarly, the reformers claimed that the vicissitudes of the economic cycle led to inadequate conditions for even the hard-working employee. But no one could determine what adequate conditions were. What is physical efficiency or those goods and services necessary for a "decent standard of living"?

Progressivism and Its Effect

With the rise of progressivism, it was instructive that a struggle was being launched to abolish poverty that an earlier generation believed could not, under any circumstances, be eradicated. While government programs had been tentative, at least in the nineteenth century, the assumption of many progressives in the twentieth century--by no means all of them--was that poverty could be attacked only through government programs. The strain of late-nineteenth-century depressions created a conventional wisdom based on the idea that relief should be provided as a right and not as a privilege. Although it took three decades for the idea to germinate and emerge full blown, it was clear that the attitudes of the Progressive Era had challenged laissez-faire assumptions and the shibboleth of self-reliance. This is not to suggest that self-reliance was rejected; on the contrary, it coexisted with the welfare state as a mutually compatible notion; every new acceptance of welfare reform usually enhances individual self-reliance, at least rhetorically. Of course, this paradox is not so different from Carnegie's defense of self-reliance and laissez-faire and his demand for high tariffs to protect the steel industry from foreign competition.

The progressives, while taking a dim view of sentimental charity, were trying to reinvigorate social responsibility without weakening individual responsibility. But economic conditions made government intrusion irresistible. In fact, the economic cycle seemed to present incontrovertible evidence that private charity could not cope with the problems of modern society. Where private aid was once seen as indispensible in helping the poor, it became the culprit now. In 1892, Henry Adams presaged the Progressive spirit by asking: "Who does not know that much of our so-called philanthropy tends to blunt the edge of our moral perception, and consequently, to perpetuate those conditions which seem to make philanthropy necessary?"

Twentieth-Century Assumptions About Poverty

By mid-century it could be maintained that the challenges to prevailing notions about poverty of the pre-Progressive Era had established a conventional rationale of their own. This rationale included the following characteristics:

(1) Aid to the dependent poor is a right, not a privilege;

(2) Dependency not only involves the absence of "sufficient funds" but "psychological deprivation";

(3) The society should assume responsibility for poverty, not the poor individual;

(4) Legal services should be provided the poor to prevent state elimination of their "right" to assistance; and

(5) Aid does not suggest mere welfare or subsistence but sufficient funds and services to provide "a decent standard of living."

Whether these assumptions were foisted on an unwary public as a function of political realignments in the inner-city, as Francis Piven and Richard Cloward suggest, or they are related to temporary programs that weren't automatically reviewed by Congress, as Gilbert Steiner argues, welfare became a "right" accepted by local officials in the 1960s. In fact, all the assumptions were confirmed by events in that decade. Legal services successfully challenged state efforts to limit welfare eligibility; government agencies organized the poor to picket welfare departments as part of a "legitimate strategy" for further assistance; O.E.O. contended that participation of the poor in policy-making was necessary to overcome the psychological deprivation of powerlessness brought on by their impoverished state; and welfare-rights groups were organized "to demand increased assistance" to dependent people. In most respects, the tentative character of early-twentieth-century reforms was manifested as policy considerations in the 1960s.

Part II

Poverty in Various Locales During Different Periods

Poverty in the Massachusetts Bay Colony

Attitudes toward poverty in the Massachusetts Bay Colony were naturally influenced by the preordained success and failure in the Calvinist cosmology. However, this Puritan colony did employ British Poor Laws to extend relief as "brotherly affection," "suffering together," and "community service." Three points were emphasized: (1) bringing up a child to work at some employment; (2) maintaining him so that he would not become a charge of the town; and (3) sharing responsibility for the aged and disabled who could not care for themselves. These characteristics of assistance were predicated on the English experience with poor classes in the sixteenth century and the Puritan belief that employment in the form of apprenticeship training was the best deterrent to the growth of poverty. The great significance of this Puritan attitude was the recognition of state responsibility for the condition of dependency and the public attempt to prevent that condition.

The purpose of Puritan laws regarding poverty was to create an orthodox, paternalistic commonwealth in which every individual was charged with religious fervor and a self-conscious attitude toward the performance of moral and civic duties. The law of 1642 made this point well:

> Forasmuch as the good education of children is of singular behoof and benefit to any Commonwealth; and whereas many parents and masters are too indigent and negligent of their duty in that kinde. It is therefore ordered that the Select men of everie town, in the severall precincts and

> quarters where they dwell, shall have a vigilant eye over their brethren and neighbours, to see first that none of them shall suffer so much barbarism in any of their families as not to indeavour to teach by themselves or others, their children and apprentices so much learning as may inable them perfectly to read the english tongue, and knowledge of the Capital lawes; upon penalties of twentie shillings for neglect therein.

What made this system workable was the maintenance of a relatively homogeneous population that agreed with the idea of preventing persons from entering the colony who might become "chargeable." As a consequence, what developed was the practice of scrutinizing the economic status of immigrants and visitors with a view to prohibiting permanent settlement ("warn out" undesirables). In 1722, shipmasters were required to deliver to "the receiver" an accurate list of passengers and present a monetary guarantee for those who might become chargeable. In 1756, shipmasters had to give bond so that no passenger would become chargeable for five years. Every immigrant to the colony was on probation of from three to twelve months, during which time he had to prove his ability to earn a living. If he became a public charge before gaining permanent residence, the burden of support fell on the person who sponsored his entrance. And if an"undesirable" was not "warned out," he could be deported with the passage paid by the shipmaster who had brought him to the colony. "Persons unmete to inhabit here" were deported in ever-increasing numbers up to the eighteenth century. But the colonists also created an extensive set of laws to care for poor persons already in towns who faced the misfortune of poverty by virtue of a death in the family, age, or disease. Yet the main effort was to develop the principle of self-support, to encourage (read: compel) the able-bodied poor to work. When judgments had to be made about a poor person, the selectmen would decide on the merits of the case individually. Generally, a poor person was placed with a family and provided food, clothing, and money. However, there were variations in approach. At one town meeting in 1687, for example, it was decided that the Widow Baldwin should be sent from house to house for two-week periods "in each family able to receive her" and "so round the town."

Since the Massachusetts Bay Colony had a severe labor shortage for more than one-hundred years, there was general agreement that a disinclination to work rather than a lack of employment was the primary cause of pauperism. As a consequence, treatment of paupers was usually harsh, much harsher in fact than in England, where paupers faced the legal penalty of forced emigration to the colonies as indentured servants. Puritans also had a special horror of idleness because of a literal interpretation of the Bible that described it as an unequivocal sin. Of course, this attitude was confirmed by an environment with poor soil where hard work was essential to secure a decent living. Hence, the emphasis that was placed on industry, thrift, and frugality.

To prevent the increase of "idlers" sent by the British courts, the selectmen sent to Governor John Endicott (1629) the following instructions:

> Noe idle drone bee permitted to live amongst us, which if you take care now at the first to establish, wil be an undoubted meanes, through God's Assistance, to prevent a world of disorders and many grievous sins and sinners.

Yet, despite all the precautions, idleness increased; for in 1682 an act declared that the tithingmen should inspect all families for idlers and see that they work, if capable, or be subject to whipping in a house of correction, a place where inmates had no means of survival except the products of their own labor. By 1699, an act provided for the punishment of "Rogues, Vagabonds, Common Beggars and other Lewd, Idle and Disorderly Persons" by ordering them to workhouses where they were provided with "tools and stock."

Although the colony assumed responsibility for the relief of the poor, the greatest care was exercised to protect society from the excessive burden of supporting idlers. On the whole, however, notwithstanding the harsh treatment in workhouses, there is the distinct impression of sympathy and concern for the poor rather than neglect and cruelty.

Poverty in New York City After the Revolutionary War

By the end of the Revolutionary War and a mass British exodus from the city, the poverty New York had always confronted became much more severe. A newly organized municipal government was asked to deal with the relief problem that had quickly escalated numbers of poor and had little to work with but stale British precedents for relief. With some independence, the welfare system was brought under closer public supervision by relief officials, and almshouse commissioners were appointed to oversee activities in the homes set aside for public wards. But the public still regarded relief activities suspiciously and were willing to provide only the lowest poor taxes consistent with the narrowest-possible perception of public needs. What remained acceptable were many precedents from the Puritan colonies: local jurisdiction of relief; apprenticeships for the young; "an auction system" for pauper labor; "a contract system" for boarding the poor; and strict residency requirements.

Newcomers to the city had to register with overseers so that a future pauperized condition would come to official attention immediately.

The law also made the relatives of paupers responsible for support, and in 1788 residency requirements were extended from forty days to twelve months. This same law had innkeepers inform overseers in writing of "the name, quality, condition and circumstances" of visitors who stayed more than fifteen days. Ship captains had to report the names and occupations of all passengers to municipal authorities twenty-four hours after arrival in port.

But New York's location made most attempts to curtail the emigration of the poor very difficult indeed. A transoceanic removal policy was so expensive as to be unworkable. Guaranteed bonds demanded for each ship's passenger was easily sidestepped by landing aliens in isolated spots in New Jersey and Long Island. There was a general enforcement problem in any of the measures taken by municipal authorities, a fact that increased the ranks of the city's poor and simultaneously worsened their condition. Several state laws also contributed to the city's problems by stipulating "that non-resident paupers be returned to New York City if they first entered the state through that port." No one, however, least of all the legislators responsible for the laws, knew what to do with these paupers once they were in the city. And despite the opposition of municipal leaders, which took the form of litigation, these state actions were upheld.

By 1820, the combination of depression, the War of 1812, unemployment, and increased immigration produced what was then described as "an alarming welfare crisis." A heated discussion of the issues took place which led to proposals to reduce relief and taxes by enforcing settlement clauses strictly, limiting immigration, and imposing "coercive labor" as a deterrent to relief. Most city residents accepted this position because they firmly believed that relief encouraged dependency and stifled self-help. When the editors of the New York Daily Advertiser appealed for a "policy of increased public responsibility" on the issue of poverty, it was not warmly received and remained a decidedly minority view.

However, when the Secretary of State, John Van Ness Yates, was directed to investigate welfare administration in the state (1823), his widely disseminated report gave the editorial position of the Advertiser credibility. He found systems of "barbarity and neglect," children growing up "in filth, idleness, ignorance and disease," and policies that did not stem the growth of pauperism for which they were designed. His final report, which ultimately was incorporated into law, recommended county poorhouses in place of "outdoor relief," abolishing removals for non-resident paupers, and requiring counties to assume responsibility for the dependent poor. Although Mr. Yates's motives were humanitarian, his reforms exacerbated problems in New York City. Mayor Stephen Allen noted that the city had to care for the bulk of the state's poor without state assistance. He also criticized the Yates report by arguing for stricter settlement requirements, since by 1824 seventy-per-thousand of the city population were paupers. Naturally, city residents who had to bear the burden of support for the immigrant poor protested vigorously against the liberalized settlement-and-removal policies advocated by Yates. But once again attempts to modify the law and obtain state financial aid to support foreign-born paupers failed. By 1825 the evidence of this period suggests that city residents opposed liberal reforms of poverty legislation and had obtained confirmation for a widely-held opinion that poverty was a moral evil--"the crime of pauperism."

Poverty in North Carolina--Reconstruction to W.W.I

The North Carolina constitution of 1868 makes it quite explicit that control of the poor was to be transferred from courts of pleas and quarter sessions to boards of county commissioners. Apparently, this modest change was designed to deal more effectively with the increasing numbers on relief who could not be accommodated by the earlier capricious administration of courts of pleas. These county commissioners had to provide maintenance and oversee poor-houses, as well as prevent public auctions and other abuses of the poor. The place, method, and extent of relief was left to the discretion of county commissioners, but it was the exclusive right of the legislature to determine and declare by whom and how the indigent of the state should be ascertained.

By the 1870s, a State Board of Public Charities was created to advise the governor on the supervision of charitable institutions. In a survey conducted by the Board, a survey very much like those brought on by public appeals in Massachusetts, Ohio, Illinois, and Pennsylvania, it was discovered to almost no one's surprise that almshouses were places of "equal banishment from the presence of human love and care...Thousands have been...cast into that common receptacle, the County Poor House, where amid filth and neglect they do not live but only languish." Poorhouses were obviously places to separate out those who could not care for themselves. They housed the diseased, aged, infirm, insane, and degenerate, as well as the poor. Some attributed this condition to the legacy of Reconstruction, and in part that may be true, but the indifference to public welfare was rife in North Carolina from the Civil War through World War I. New programs were characterized as "radical schemes." This furnished a plausible excuse for leaving undone anything that was too difficult or expensive. Even the non-partisan Board of Public Charities ceased to function when the legislature withheld funds; as a result, no official reports of poor relief exist from 1873 to 1889. One curious phenomenon of the period was the extraordinary number of Confederate soldiers in poorhouses (the exact figures are not available) for whom no special provisions were made until 1891. They were forgotten people; perhaps this was an institutional way of forgetting the South's loss in the Civil War.

Although policies in the state were characterized by passivity and neglect during this period, conditions in poorhouses depended entirely on the county commissioners. When they were "progressive," new homes were built; but conditions could easily degenerate with a change of administration. For example, the Iredell County Home was proclaimed "a credit to the state" in 1849, condemned by a board of county visitors as "unfit and unsanitary" in 1890, and was known as "the showplace of poorhouses in the state" by 1913. The record indicates that, because of public apathy, there were few changes in the manner of poor relief. Admittedly, the growth of the workhouses was checked, but probably only because a method of employing prisoner labor at a greater profit was found--the chain gang. Moreover, the poorhouse continued as a convenience to save judges the labor of thinking about solutions to difficult cases. The poorhouse was the dumping ground for wrecks of every type. And the State Board of Charities was unable to obtain sufficient public support and financing to provide the information the legislature desperately needed to make reforms in the state system for aiding the poor.

Poverty in New York City in the 1870s

A depression of five years' duration in the 1870s, precipitated by the failure of the financial house of Jay Cooke and Company and the collapse of railroad speculation, exacerbated the already desperate welfare situation in New York City. Unemployment was especially severe in New York since this period of depression coincided with the depredations of the Tweed Ring, which rendered thousands jobless from unsupported public-works programs. To add to the chaos, the Department of Public Charities and Corrections was implicated with the Tweed Ring scandals and, as one might expect, had its budget severely cut. Almost the entire burden of relieving the needs of the poor was thrust into the hands of private charities which were ill-prepared to handle the assignment. The number of families aided by the Association for Improving the Condition of the Poor rose from 5,292 in 1873 to 24,091 in 1874; but the number of dollars spent was barely doubled. According to the A.I.C.P. secretary, the ranks of those assisted included large numbers of vagrants and tramps who were attracted to the organization because of its increased assistance.

Reporting in 1874 to the Conference of Boards of Public Charities, a committee reviewing relief measures in New York during the winter of 1873-1874 wrote:

> The announcement of the intended opening of these and kindred charities immediately called into the city the floating vagrants, beggars and paupers, who wander from village to village throughout the State. The streets of New York became thronged with this ragged, needy crowd; they filled all the

> stationhouses and lodging-places provided by private charity, and overflowed into the island almshouses. Street begging, to the point of importunity, became a custom...

Perhaps the most significant effect of the depression on poor relief was an ambitious but abortive attempt to coordinate the activities of the many welfare agencies, public and private, in New York City. This Bureau of Charities, which was designed to report on the degree of aid, begging, and pauperism, built up a registry of 14,000 recipients of relief and a directory of 194 private welfare agencies in the city. In its first report, the Bureau claimed that it had found "thousands of persons who were receiving relief from two or more societies." But, despite the importance of the information uncovered by the Bureau, there were attitudes of suspicion and jealousy directed at it; and with the withdrawal of the A.I.C.P. from its membership, the organization was effectively paralyzed.

As the hardship of the decade increased, and as aid decreased, serious unrest began which had a revolutionary fervor to it. A Committee of Safety was created to organize the poor and demonstrate for assistance in the form of public work relief. The mayor argued against public work for "the industrious poor" and "raising subscriptions from merchants and others so as to alleviate any suffering...." Labor organizations provided rhetorical assistance to the poor, and the spirit of narrow provincialism took hold as throngs clamored to dismiss non-residents from public jobs and restrict them to local residents. An ordinance endorsing this idea was adopted by the Common Council in 1874, but it was vetoed by the mayor. The only notable reform introduced by the city government during the period was that stonebreaking was instituted as a way of employing the poor. Notwithstanding the evidence of increasing numbers receiving private charity, it was notable that both the majority of the unemployed poor and the municipal government both considered work the best way of assisting those on relief.

Poverty in Vermont in the 1880s

In the mid-1880s, Chief Justice Poland developed legislation for the poor that was considered a landmark decision in the state and the nation, and it subsequently became known as the Poland Pauper Laws. These new laws presumably lessened many of the hardships of the poor and represented the symbol of reformist fervor on the poverty issue in the nation. The laws provided that:

(1) Every town must support those paupers who reside in its limits, regardless of how long they have resided there;

(2) A person gains settlement in any town in which he last resided for the term of three years "maintaining himself and his family";

(3) A poor person not having legal residence must be supported by the town in which he resides and "the expenses are not recoverable from the town in which he had legal residence"; and

(4) Only expenses incurred in helping a transient are recoverable.

These actions, which were designed to liberalize rigid application of aid-for-the-poor laws, were called into question with increasing migration to the state and changes in social attitudes. With large numbers of migrants, the legislature revised the law to recover expenses from the place where the pauper last resided for three years. And as divorce became more common, a divorced woman became femme sole and did not have the legal residence of her husband, thereby transferring responsibility for her support to the town where she was raised. Likewise, increasing pauperism and the costs of assistance led to a 1921 modification in the Poland laws, which instituted forced transportation to the place where a pauper had entered the state if he had not resided in Vermont for one year. In effect, the modifications undid the purpose of the Poland laws, but what these revisions seemingly suggest is that reforms on this matter are effective as long as the general public is not adversely affected by the decisions. Once social conditions alter the original purposes behind the legislation, public support wanes and so does the legislature's ability to sustain the laws.

Poverty in New Jersey, 1918-1945

Although changes in attitude are difficult to discern, it was revealing that, when the New Jersey Department of Charities and Corrections had its name changed to the Department of Institutions and Agencies, the department executive director indicated this modest move represented "a significant shift in attitude." Instead of punishment, isolation, palliatives, and condescension, the new agency title was intended to connote "preventive social casework, rehabilitation and democratic service." The Department viewed social work as a profession, not a holding operation, and tried to take those steps necessary to upgrade standards of "treatment for the poor." Throughout the 'twenties, this attitude was deemed progressive, partly, of course, because the Department had relatively few demands placed on it. However, with the massive unemployment of the 'thirties, one could find out if the name change was as significant as the public statements suggested.

For more than a decade, relief in the state fell into two categories: (1) permanent indoor relief for the chronically ill, insane, and dependent children, and (2) outdoor relief given to those afflicted by an emergency--an accident, illness or temporary unemployment. But the unemployed in the Depression were different, and few, if any, in authority knew how to respond to the difference. Surely the established categories were not appropriate for the kind of assistance these people needed. Yet, the Department relied on outdoor relief as if the unemployment problem were little more than a temporary emergency.

One move taken by the legislature was illustrative of the prevalent attitudes toward poverty. A state old-age pension was introduced in 1932, but to be eligible for a pension the applicant had to be seventy and have both legal settlement in a county and residence of fifteen years in the state. The pensioner had to be in good health, since there were provisions for outdoor relief only. He had to be without any legally responsible relatives who could support him, and without an estate of more than $3,000. Furthermore, if his need resulted from the unemployment of relatives, he was ineligible until his situation "took on an aspect of permanency"--the assumption being that the unemployment of responsible relatives was a temporary or emergency condition. This program was administered so economically, despite the claim that it was "a solution" to the effects of the Depression, the "careful estimates" of those who would use the pension were almost twice as high as the number who did eventually qualify for it.

From 1933 to 1936, Roosevelt's advisors moved toward wage payments for public work as being more desirable than the dole ("get the government out of this business of relief"). As a consequence, the government stopped subsidizing state agencies and, instead, developed large-scale public-works programs directed from Washington. In New Jersey, this meant the employable unemployed were given work and the unemployables received "categorical relief." But the federal public-works programs were not sufficiently large to support all employables; nor was federally-assisted categorical relief increased enough to provide for all unemployables. As a practical matter, state aid in financing relief had to increase even as federal programs became more ambitious.

The Depression forced New Jersey legislators into considering poor relief as more than a casual, peripheral enterprise. It was obvious that emergency measures were insufficient to meet the problem and that outdoor relief would have to adopt the practice of categorical relief, which had a relatively stable financial base of shared funds and a full-time professional administration. By 1940 it was apparent that local officials could not handle what was then being described as a problem of national proportions. Yet the precedents of the past, such as municipal administration, and public attitudes about the work ethic persisted, even when the federal government made rhetorical gestures for national aid.

Title III Projects in New York City

As a result of the so-called urban crisis of the 1960s and the argument that the inner-city poor were "powerless" to affect the institutions that had a direct bearing on their lives, it was contended by O.E.O. and the Office of Education that local programs be designed "to meet local needs unmet by existing social agencies." It was felt that, if ghetto residents could petition government agencies directly for needed services, and if they were responsible for some policy decisions, a sense of participation would increase and alienation--the much-abused term--would be lessened. By 1967 this ambiguous desire for "community control" took the form of a Title III proposal for "Community Education Centers." The C.E.C. model was designed to involve disadvantaged youth and adults in identifying educational and social problems, planning programs, and conducting programs which used a decentralized form of administration.

C.E.C. developed as a concept and ultimately a program because of internal community pressures and the resultant political reaction. Community pressure was due largely to the incremental dismay with the perceived ineffectiveness of municipal institutions and the heightened sense of performance which emerged as the "new consciousness." The political reaction was related to legislators' desire for support and attempts to keep inflamed community passions within "acceptable" limits. Under these conditions, Title III aid could be--and was--interpreted as a reciprocal political exchange in which the ghetto communities got some financial assistance and political leaders maintained relatively high levels of support.

In the original proposal, two general recommendations were made: community participation in establishing programs and programs designed to mitigate the urban problems of the poor. But as has been well established, there was often a disjunction between conception and implementation. In the political process of considering proposals, some projects were accepted that had little relationship to local problems or were so modified that they had no similarity to their original purpose. For example, in District Seven (South Bronx and Hunts Point), which had one of the highest rates of narcotics addiction in the country, not one program was approved to cope with this problem, although two photography clubs were funded. The reasons for this disjunction cannot be given with certainty, but there were several factors that probably accounted for it. Advisory boards in most districts were not representative of community sentiment, and for a very simple reason: community sentiment--except for the loudest voices--was not discernible. Moreover, appointments were made on the basis of reputation, which in many cases meant notoriety. When decisions were made about which projects to fund, the decision, more often than not, reflected reciprocal exchanges. In order for one advisory board member to receive acceptance of a particular project, he often had to support, against his better judgment, the proposals of other members. Under these circumstances, it was not surprising that several programs ultimately approved and implemented should have been accorded the lowest priority. It was evident that the boards were often eager to initiate programs that had "exposure" which demonstrated "a community concern."

The idea of "full community participation" which was in the Title III guidelines was naively utopian. Full participation is simply not possible. The constraints of job, family, personal ambition, and available time inhibit maximum participation in any community. In addition, a community--especially a ghetto area--is in continuous flux. With a transient population that has a fifty percent turnover in a given year, e.g., Harlem, the organization necessary to represent community interest even in a rudimentary way is not available. Without a reliable organization or a stable population, participation was perfunctory, and full community participation became an exercise in frustrated expectations.

For the most part, local residents not officially connected with C.E.C. were unaware of the projects. It was only when the program affected them or their families that interest was elicited. In most cases, these residents were not consulted when the original proposals were made, even though they were invited to community meetings whose expressed purpose was the discussion of the proposals. It is axiomatic for ghetto residents that those involved in proposal design are "politically sophisticated," and consequently they are most attuned to what is "acceptable" to the authorities. This view was reinforced by the fact that approximately seventy-five percent of the board members for C.E.C. were involved in Title I advisory groups as well. Many residents realized that the "community participation" which was advanced as a way to deal with political "powerlessness" provided them with few options. Influence was reserved for the outspoken, the politically sophisticated, and those who threatened violence, which generally excluded the bulk of the target population. Nonetheless, community leaders banked on this passive acceptance of ghetto residents in order to extract from legislators the funding of projects, like C.E.C., that were described as legitimate exchange for stability. And the legislators, fearing potential instability, acknowledged interference from the community brokers with public funds.

In 1968, $21,900,000 of federal and state money was spent on this program.

Conclusions

What emerges from my somewhat sketchy history of welfare proposals and attitudes is the evolution of an idea. For much of American history, poverty was either a natural condition influenced by providence or a function of character flaws. In either case, social assistance, while always existing, was limited to those cases where no other means of support was available. What society demanded was contrition from the poor and a well-developed sense of self-help from the general population. The strain in this belief came with extended depressions, in which some enployables, eager to work, could not find it. As a consequence, personal responsibility gave way to social responsibility, in deed if not always in word. Aid evolved from a privilege to a practice to a right. George Homans perspicaciously explained this point when he noted:

> The more often...an activity emitted under particular stimulus-conditions has been rewarded, the more anger will be displayed...when the same activity, emitted under similar conditions, goes without its reward, precedents are always turning into rights.

Just as public assistance moved from a privilege to a right, poverty itself changed from a condition of unfortunate circumstances that required temporary relief to a situation that warranted affection, friendship, and psychological treatment. Social work was more than processing names on relief rolls; it was a public service that required an analysis of the symptoms of "social pathology" and a conclusion, more often than not, that the poor are the flotsam and jetsam of industrialization, "pawns of capitalism."

Whether this assumption is accurate or not is irrelevant. The irresistible force of a bureaucracy with a vested interest in assisting the poor perpetuates the idea. And a well-developed sense of social responsibility and the cynicism of government officials eager to maintain political support contributes to the notion that poverty can be eliminated. Meanwhile, conditions improve--even if there is disagreement on how much. But as the relative difference in income declines, the class differences that remain are exaggerated. So with more aid and more social workers than ever before, and a heightened sense of social responsibility emanating from the New Deal legacy, the welfare rolls grow, the poor are increasingly disenchanted, and the problem seems hopelessly beyond solution.

Selected Bibliography

The readings listed here had a direct bearing on the text, although they were not the only sources examined.

Adams, Grace. Workers on Relief. New York: Arno Press, 1939.

____________. The Almshouse Experience. New York: Arno Press, 1827.

Bernstein, Blanche. Welfare and Income in New York City. New York: New School for Social Research, 1971.

Bremmer, R. H. American Philanthropy. Chicago: University of Chicago Press, 1960.

____________, ed. Children and Youth in America. Cambridge: Harvard University Press, 1971.

____________. From the Depths. New York: New York University Press, 1956.

Bridenbaugh, Carl. Cities in Revolt. New York: Alfred A. Knopf, 1955.

____________. Cities in the Wilderness. New York: Alfred A. Knopf, 1968.

Cavan, Ruth Shonle, and Rank, K.H. The Family and the Depression. New York: Arno Press, 1938.

Chapin, Robert C. The Standard of Living Among Workingmen's Families in New York City. New York: Arno Press, 1909.

The Charitable Impulse in Eighteenth Century America: Collected Papers. New York: Arno Press, 1972.

D'Agostino, Lorenzo. The History of Public Welfare in Vermont. Vermont: St. Michaels College Press, 1948.

Devine, E.T. Misery and Its Causes. New York: The Macmillan Company, 1909.

Evaluation of the Community Education Centers 1969-70, Vol. I. New York: New York University Center for Field Research and Social Services, August, 1970.

Feder, L.H. Unemployment Relief in Periods of Depression. New York: Arno Press, 1936.

Foster, Charles. The Rungless Ladder. Durham, N.C.: Duke University Press, 1954.

Goldman, Eric. Rendezvous with Destiny. New York: Vintage Books, 1961.

Hale, E.E. "The Prevention of Pauperism." Charities Review, Vol. I, November 1891, pp. 39-41.

Herring, Harriet. Welfare Work in Mill Villages. New York: Arno Press, 1929.

Hoffer, F.W. Counties in Transition. Virginia: Institute for Research in the Social Sciences, 1929.

Hopkins, C.H. The Rise of the Social Gospel in American Protestantism, 1865-1915. New Haven, Conn.: Yale University Press, 1940.

Huggins, Nathan. Protestants Against Poverty. Westport, Conn.: Greenwood Publishing Co., 1971.

Jacksonians on the Poor: Collected Papers. New York: Arno Press, 1971.

James, Arthur. Virginia's Social Awakening. Virginia: Garret & Massie Co., 1939.

James, Henry. "Relations of the State to Industrial Action." American Economic Association Proceedings, 1885-6, Vol. I, no. 6 (1887).

Jernegan, Marcus. The American Colonies, 1492-1750. New York: Longmans, Green & Co., 1929.

____________. Laboring and Dependent Classes in Colonial America. New York: Ungar, 1960.

Klein, Philip. From Philanthropy to Social Welfare. San Francisco: Jossey Bass, 1968.

Lane, M.D., and Steegmuller, Francis. America on Relief. New York: Harcourt Brace & Co., 1938.

Leyendecker, Hibry. Problems and Policy in Public Assistance. New York: Harper Brothers, 1955.

Macneil, D.H. Seven Years of Unemployment in New Jersey, 1930-1936. Washington, D.C.: Social Science Research Council, 1938.

Miles, Arthur. An Introduction to Public Welfare. Boston: D.C. Heath, 1949.

Miller, Perry, ed. The American Puritans. New York: Anchor, 1956.

Mohl, Raymond. Poverty in New York, 1783-1825. New York: Oxford University Press, 1971.

__________, ed. Urban America in Historical Perspective. New York: Weybright & Talley, 1970.

New York City Department of Public Charities and Corrections Sixteenth Annual Report, 1875. New York: 1876.

North Carolina State Board of Public Charities Report, 1870.

Owen, D.E. English Philanthropy. Cambridge: Harvard University Press, 1964.

Persons, Stow. American Minds. New York: Holt, Rinehart & Winston, 1958.

Piven, F.F., and Cloward, R.A. Regulating the Poor. New York: Vintage Books, 1971.

Public Interest. Summer 1969.

__________. Winter 1974.

Report of the Board of Charities and Probation of the State of Vermont. Vermont: Tuttle Co., 1918.

Rezneck, Smauel. "Patterns of Thought and Action in an American Depression, 1882-1886." American Historical Review, Vol. LXI, January 1956, pp. 284-307.

Rosenberg, Carroll S. Religion and the Rise of the American City. New York: Cornell University Press, 1971.

Schneider, D.M., and Deutch, Albert. The History of Public Welfare in New York State, Vols. I and II. Chicago: University of Chicago Press, 1941.

Sedgwick, Theodore. Public and Private Economy. New York: Arno Press, 1836.

Spahr, Charles. America's Working People. New York: Longmans, Green & Co., 1900.

__________. An Essay on the Present Distribution of Wealth in the United States. New York: Thomas Y. Crowell & Co., 1896.

Steiner, Gilbert, The State of Welfare. Washington, D.C.: Brookings Institution, 1971.

Tishler, Hace Sorel. Self-Reliance and Social Security, 1870-1917. New York: Kennikat Press, 1971.

Townsend, Peter, ed. The Concept of Poverty. London: Heinemann, 1970.

"The Tragedy of Industry." Journal of Social Science, no.40, December 1902, pp. 12-18.

Tuttle, Emeth. Aid in North Carolina. Raleigh, N.C.: State Board of Charities and Public Welfare, 1926.

Watson, J.P. Economic Backgrounds of the Relief Problem. Pittsburgh, Pa.: University of Pittsburgh Press, 1937.

Woodroofe, Kathleen. From Charity to Social Work. London: Routledge & Kegan Paul. 1962.

Woods, Robert, et al. The Poor in Great Cities. New York: Arno Press, 1895.

Young, Donald. Research Memorandum on Minority Peoples in the Depression. New York: Arno Press, 1937.

POSING THE PROBLEM: PRAGMATICALLY

"Showdown at Poverty Gap"

by

Jeffrey Marsh

This chapter was originally issued as a Hudson Institute Discussion Paper under the same title, dated February 4, 1974, HI-1942-DP.

SHOWDOWN AT POVERTY GAP

There is widespread agreement that the ways in which the U.S. currently approaches the problem of poverty are both inadequate and inefficient. This consensus breaks down, however, as soon as any attempt is made to devise a better system than the present one. It is the aim of this paper to give a broad overview of the problems of choice facing the policy-maker in the area of poverty, and to review the different approaches which have been suggested.

Different perceptions as to the nature of the problem naturally lead to different emphases in the search for solutions. We take it as given that there is basic agreement that society has some responsibility to help its least well-off members; while such agreement may not have existed in all societies at all times, it may certainly be assumed in the U.S. at this point in history. We are then left with the question of just what this responsibility consists of; once this question is settled, the formidable task remains of deciding what programs can best fulfill the responsibility. As long as no national consensus has been reached on the fundamental question, it is naive to hope for a satisfactory logical resolution on the programmatic level, but in practice it is likely that those programs which do emerge through the workings of the political process and manage to survive will ultimately prove to be a key element in the eventual evolution of such a consensus. It is therefore useful to begin by paying some attention to the definition of the problem of poverty.

There are basically two approaches which may be taken in facing the question of how much public support should be given the poor. The first approach, which we may term conservative, begins with the perception that there is a certain fraction of the population which is unable to satisfy its basic material needs through the normal workings of the economy. It is therefore incumbent upon the richer majority to divert part of its surplus wealth to filling these needs. Since this surplus wealth does actually have to be taken involuntarily from its owners (because otherwise private charity could solve the problem), it is necessary to justify every dollar which is transferred, by ensuring that the recipients are truly unable to support themselves rather than merely unwilling.

The second approach, which we may describe as egalitarian, perceives the existence of poverty as a fault in the social structure. To the extent that the normal working of the economy results in an unequal distribution of income, it is in need of structural correction. While some degree of inequality may be needed so enough incentive exists to keep it working more efficiently, if numbers of people through no fault of their own end up with less than a basic minimum, then there is too much inequality. While the conservative sees the imperative for redistribution as a humanitarian gesture to help those unfitted for the economic struggle, the egalitarian regards the original deviation from equality as a surrender to economic force majeure which should be resisted as much as possible.

The middle ground on which both sides arrive from opposite sides, and comprises the debate over what level of support we want to provide for which poor, is equivalent to the question of how much redistribution of income is necessary, how much is desirable, and how much is possible. The answers to these three questions are so subjective that is little wonder that no agreement has been reached so far on any of them. Even on the question of estimating the minimum material needs of the poor, there is dispute as to whether an absolute standard in terms of food, clothing and housing (as their monetary equivalent) or a subjective standard, depending on the standard of living of the society at large, is more appropriate. Clearly, the former is more easily arrived at, even if it implicitly contains some element of the latter by the changing nature of the perceived minimum decent standard of living. However, differences in perception are so great that agreement, even on minimum figures, is not likely to be a swift process.

If we assume agreement on a minimum level of support which is necessary, then the debate over devising a new system to deliver this level is concerned with two inter-related problems: who should get the support, and how it should be delivered. If eligibility is too broadly construed, then keeping the program within manageable levels is made very difficult, because both the number of recipients will tend to increase and the number of people supporting it will tend to decrease. Similarly, if a great deal of care is not exercised in devising the mechanism for delivery, it will not succeed in reaching the right target group in an efficient manner, and while some deserving recipients will go without, others who do not require aid will benefit. We see, therefore, that there is no clear-cut way in which the means and the ends of schemes directed to reducing poverty can be separated, and the two therefore have to be treated together.

We may distinguish between three broad approaches to the problem of alleviating poverty, each of which has characteristic virtues and drawbacks. The first is the service approach, which seeks to meet particular needs directly. Under this approach the government (Federal, state or

The second approach seeks to circumvent these difficulties by restricting the role of the government to the disbursement of cash. Since the recipients can use this for whatever purpose they desire, there is no taint of paternalism, and would-be providers of goods and services have to compete for the additional business generated among the recipients, who are assumed to be the best judges of their own needs. Even if we grant the validity of this last premise (which could be doubted for fairly obvious reasons), a number of problems arise with the cash approach. The most serious of these problems is that of deciding eligibility. If the sole ground for eligibility is sufficiently low income (which, for the sake of simplicity, we assume may be defined in an equitable and suitable fashion) then we are faced with the insoluble problem of reconciling adequacy, cost and incentive. As the recipients' earned income increases toward the poverty line, the grant must decrease smoothly so that there is no penalty entailed by earning just enough to lose the grant altogether, which would encourage low-income workers to stop working. This means that there is a three-fold choice between making the size of the grant fairly small initially (so that those people with no outside income are not given an amount adequate for their basic needs), or making the cut-off level so high that the grant goes even to those whose earned income takes them out of poverty (and therefore greatly increasing the cost to those who are paying for the scheme), or making the grant levels decrease rapidly with earned income so that they start at an adequate level and cut-off at a reasonable level (but thereby creating a strong disincentive to working at low-paying or part-time jobs). A number of different mechanisms have been proposed for such cash grants. These include negative income tax proposals, whereby those whose income was not large enough for them to pay a positive amount of income tax would be paid the appropriate amount to bring their income up to the appropriate level, and the demogrant schemes which would achieve the same end via different accounting methods; namely, by allocating grants or tax credits to groups who do not now get them, and at the same time taxing that part of these grants which accrues to the more affluent. Some of these grants would be made initially to the whole population, and sometimes only to selected groups, such as families with young children.

Some of these cash grant schemes have been designed with great ingenuity (and some with great idiocy) to ensure that the grants reach the intended target group, but the fundamental problems we alluded to earlier, which cannot be evaded by any accounting gimmicks, means that there is usually a need to assume that special purpose grants or service programs must also remain in existence for those deserving poor who remain below the poverty line because of the inevitable compromises to keep costs down. The difficulty with preserving work incentives remains, as restricting the special grants or service programs by some sort of means test is in effect an additional tax which hurts most severely those just above the cut-off level. If the services are provided universally, they have a built-in tendency to grow uncontrollably, with little possibility of meaningful control other than making them unsatisfactory either substantially or aesthetically.

Having seen that both the approach via services and that via cash have serious drawbacks, a number of observers have suggested that the only way to treat the problem of poverty adequately is by a more radical approach, by transforming the structure of the economy. This structural approach would change the incentive structure within the economy so that full employment would prevail, with all those employed earning at least enough to keep them above the poverty threshold. Since the private sector as it is constituted now does not do this, a vast increase in public expenditure is called for, either in subsidizing private wages (an approach which could be counted upon to generate massive opposition from unions which would see it as a device to save money for employers) or in increasing public employment.

Much rhetoric suggests that a new public work force could be used to renovate slum neighborhoods and to provide other much needed public services in fields such as health or child care. There would seem to be serious doubt, however, about how effective such a work force (made up basically of hard core unemployed) would really be, given the absence of a high level of motivation (guaranteed jobs at low wages) and the historic record of other public organizations such as the postal service. When one considers the growing trend to civil service unionization, the prospects for growth in cost seem mind boggling, and the inflationary impact due to all private organizations' having to increase their minimum wages, with increases in cost and consequent wage increases right up the line, is easily predicted. With all this, the problem of the truly unemployable poor, the very old and the very young, would still require special attention. The structural approach therefore has some obviously serious drawbacks, even if one is willing to take a chance on making a major change in an economy whose response to much less drastic changes is by no means predictable.

local) provides access at reduced or zero cost to food, housing, medical care, etc.* It sets up rules as to eligibility, whether the services are available to all or only to those meeting selective criteria, and regulates in some way the level of the services, deciding whether they may be provided by anyone or only by certain groups, whether they must be of high, medium or low quality, and how much may be charged for them. The main objection to this approach is that it is paternalistic. By making all the choices for the recipient, the service approach robs them of their freedom to judge for themselves what they need. This in turn tends to lead to waste, as the normal workings of the market are circumvented and the services which are provided may be neither desired nor even delivered most efficiently. There will be a tendency for most of the benefits to flow to those who provide the service rather than those who receive it, and the recipients become just a conduit for funds being transferred from the government to such groups as doctors, landlords of "welfare hotels" and the like. By creating a guaranteed market for these services, their price tends to increase, causing program costs to grow immoderately, while termination or limitation of the program becomes politically very difficult because of the vested interests which are created by it. Should an attempt be made to avoid subsidizing providers of the service by the government's providing them itself, the establishment of a massive new bureaucracy can only accentuate all the other problems.

---

*When education at all levels is regarded as one of these services, it is often justified as being directed towards making its recipients self-supporting. One of the arguments cited by supporters of the structural approach (see pp. 6-7 below) is that manpower training projects cannot be expected to make much impact on an economy geared to work at less than full employment.

One apparently less drastic approach sometimes put forward is for the government to force increased private employment of the poor by the enforcement of racial or ethnic quota systems. This would imply some loss of productivity in the economy as well as an intensification of racial polarization, neither of which is necessarily beneficial.

It appears, therefore, that there is no simple solution to the problem of poverty. It need not surprise us unduly that the ways in which the income of the poorest members of society will continue to have their status ameliorated will probably involve an eclectic mixture of suggestions from all three of the approaches we have delineated. While the diversity of cases of poverty will continue to require an array of special services, and political forces will probably ensure some increased level of employment of the marginally productive (which may possibly be a social gain, even if an economic loss), it seems that direct cash payments will be the preferred mechanism for filling most of the poverty gap.

We referred earlier to what we called an insoluble problem of the cash approach, which was the impossibility of preserving a high level of work incentive (measured by a slow decrease in the benefit rate with increasing income) while at the same time keeping benefits high enough for those with no other source of income, and costs low by cutting off benefits at an income level not too many times the poverty threshold. The problem of incentives will therefore have to be bypassed by creating positive work incentives which outweigh the disincentives of the high tax rate for low paying jobs. Such incentives would have to be associated with holding a job, and should therefore exclude the unemployed and, preferably, be somehow proportional to the effort expended at work. One can envision a whole series of schemes, ranging from extremely cheap gimmicks, such as a lottery with a small number of high prizes (say two per week, drawn on national television, with values of about $100,000) with the number of chances proportional to the number of hours worked, to more substantial ideas such as bonus paid vacations of a few weeks every 5 or 6 years, again depending on work effort, and even profit sharing schemes. Such moderate changes, while scarcely endorsing Stakhanovism, would show that the work ethic was not dead without unduly penalizing those who cannot work.

PERCEPTIONS AND POLICIES
PUBLIC PERCEPTIONS OF NEED AND POLICY

'''Welfare in a Money Economy''

by

Jane Newitt

This chapter was originally issued as a Hudson Institute Discussion Paper under the same title, July 2, 1974, HI-2022-DP.

"WELFARE" IN A MONEY ECONOMY

This paper offers a simple interpretation of our changing provision for the needy over the past century and a half. Like most such simplifications, this one is intended to argue a thesis, which is that the currently fashionable negative-income-tax-type conception of an ideal "welfare system" starves important psychological or "psycho-social" needs of both aid-givers and aid-receivers, and, therefore, is not only undesirable but unworkable.

The paper associates these needs, ultimately, with the psychology of provider:dependent relationships, but initially with a view of history in which the organized charities and philosophical formulations of the nineteenth century are less important than the rural cultures from which most native and recent-immigrant city dwellers came, including the middle class (or those who soon achieved that status) as well as those who remained in poverty for generations.

My reason for this emphasis is to stress the historical role of rural personalism in provision for the needy, and also to dispute the modern practice of treating "the poor" as a synonym for "the needy." In the American (and European) past, most people were poor (I mean by this that the average American family a century ago, compared to the average American family today, suffered great physical discomfort and insecurity for causes that were ameliorable by greater purchasing power within the marketplace of the time) and, in the American past, most "welfare" transactions were therefore a matter of the able-bodied poor helping the less able--the orphaned child, the village idiot or drunk, the mother with a new baby--and being helped in turn, when hard times came. Should we "eliminate poverty," such needs will yet exist, and not only the orphaned child but the abused or neglected; not only the new mother but the enfeebled and lonely grandmother; not only the idiot and the alcoholic but every kind of misfit and every kind of person who, somewhere, "took a wrong turn" or had a run of bad luck or a crushing setback from which he or she failed to rally. Moreover, there still will persist the desire of the "privileged" to remedy exceptional need, and the desire to be rewarded for this activity.

Putting these inevitabilities together, I conclude that eliminating poverty is a result that may derive from economic growth and technological progress, but it is an inappropriate and diversionary aim for social welfare policy, which is properly concerned with alleviating exceptional need. I conclude, further, that the currently fashionable conception of an ideal welfare system exemplified (*inter alia*) by the negative income tax is pernicious, not only because it irresponsibly promises an end to the welfare mess but because it denies that the perpetually imperfect institutional embodiments of basic human needs (of the aiders and the aided) can be judged other than as a "mess."

In stating these conclusions, I may be in lag of events, and this is an argument I will present at the end of the paper. But, for those who are not going to read the paper to the end, I will state here that, while it may not be that the poor ye will always have with you, the welfare mess ye always will, and, maybe, God bless it, and, certainly, public-policy prescriptions should take this into account.

This being done, I will proceed or retrogress to consideration of the rural world of my own ancestors, and of those of most Americans, whenever they got off the boat. What were the basic characteristics of this primordial "welfare system" in a society where life--I do not intend to romanticize--was often the Hobbesian solitary, poor, nasty, brutish, and short?

The setting, to start with, was a landscape dotted with small towns and hamlets that existed primarily to serve the needs of surrounding farms, where farmers, their families, and hired help produced most of what they consumed and consumed most of what they produced. Hence, the character of the local economy: cash was scarce; barter was common. Not only were goods and services the prinicipal forms of aid to the needy. Also the clergyman, physician, and merchant, the itinerant portraitist and, later, photographer (my grandfather) were not infrequently paid "in kind." Moreover, while the two stages of such transactions--good for good, good for service, service for service--were sometimes close in time, they were sometimes widely separated, and this meant that there was not a wholly clear-cut distinction among three types of commerce: business transactions, neighborly acts, and acts of charity. When Smith repaired Brown's plow, it might be any of the three, or it might be viewed as the second by Brown and the third by Smith, and so forth.

This blurring of distinctions was possible, of course, only where all faces and circumstances were familiar, and where a general consensus prevailed on what constituted "good behavior," but such homogeneity and insularity were the norm of American life for a long time. They were the heritage--to move the story along--of the countryfolk who moved to the cities, of the rural gentility as well as the dirt farmer, of the landless as well as the landed, and of the European peasant immigrants as well as the "natives."

Thus it should not surprise us that the characteristics of rural "welfare" aid--its personalism, its emphasis on in-kind provision, its heavy reliance on neighborly assistance--dominated the urban picture for many decades. This is the less surprising when we note that the rate of city growth in the nineteenth century far exceeded that in the twentieth. There was no urban culture geared to assimilate newcomers and aid the needy. The rural in-migration formed the urban culture.

In this process, ethnic groups, extended families, and former neighbors from Floyd County (or wherever) showed a marked tendency to recoalesce in the cities, to reestablish traditional forms of mutual aid, and to devise new ones: for instance, mutual insurance societies developed responsively to the fact that burial was expensive in the city. In-kind aid for the needy, although abnormal in the urban economy, remained for a long time the preferred form of aid: as late as 1909, only 7 percent of public assistance transactions in the 43 cities surveyed by the Dillingham commission involved money transfers.* As for personalism, this norm of rural charity became an ethical dictum for the transplanted upper classes, requiring invention to implement. Responsively to this dictum--that people requiring aid must be treated as individuals, with individual problems, individual reasons for these problems; they must not be treated as a mass--the settlement-house movement arose, here as in England, and the organized institution of "visiting" the poor.**

---

*"Immigrants As Charity Seekers," Dillingham Commission Report, Senate Document, Vol. 10, 1911, p. 48.

**Charles B. P. Bosanquet, "A Handbook for Visitors of the Poor in London," London, England, 1874, is duplicated as an appendix to this paper.

But these rural influences could not escape perversion. Jane Addams might feel that the poor gave her as much as she gave them, but her need to state this sentiment is itself revealing. The urban locale, with its cash economy, its ever-shifting mass of strangers, and its sharp class distinctions reinforced by differing ethnic and religious traditions, was a very different setting for organized neighborliness than the culturally homogeneous small town. Unavoidably, the paternalistic component of personalism became conspicuous, and divisive: that is, while it was not new that helpers expected gratitude and good behavior from the helped, it was new that helpers and helped lacked a shared conception of "good behavior."

Thus, from the early nineteenth century on into the twentieth, the established urban classes fought to "culturebreak" successive waves of rurals. Not only were organized charities and the public schools involved in this battle. The Prohibition controversy was also, in part, a war waged on this terrain. So was the crusade against child labor. So were the coercive efforts to regularize the practice of medicine. And, permeating all, exacerbating nearly every issue, were the commands and taboos of fundamentalist religions--Protestant, Catholic, Jewish--that gave divine sanction to varied constructions of right behavior.

But this anarchy and this parochial paternalism did not last. The urban experience created urbanity, meaning for some a genuine delight in cultural diversity; for most, expedient forms of commitment to laissez-faire. Over time, new shared values settled out: the value of education, of public order, of sanitation. The coercive aspects of assimilative and charitable processes were not eliminated but they were secularized, parallel to the secularization of assistance to the "heathen" in distant lands.

There emerged, in short, a new paternalism, supported by a wary, frequently strained coalition and consensus of the enlarged, more heterogeneous established classes of the urban culture. The new paternalism defined good behavior in the this-world terms of a progressive industrial society. At its heart was the high value placed on increasing economic productivity, and any number of social reforms were effectively advocated by reference to this value.

However, these reforms favored, first, the employed worker and second, they favored children, the future labor force. So far as chronic indigents and the masses of frequently unemployed workers were concerned, the new paternalism of the pre-New Deal decades retained the philosophy of "less (or least) eligibility" defined in the English Poor Law of 1601: i.e., the conditions of life of the unproductive must be more unpleasant than those of the lowest-paid worker. Elsewise, the argument ran, why would anyone work?

This question had rarely arisen with much force in rural America. "Why do people work?" becomes an urgent question only where a spiral develops from the interplay of two factors: the presence of rapidly growing numbers of indigents in a society otherwise perceived as normal; and an uncontrolled increase in charitable provision for the needs of these people (and of property crime as an unwitting form of "charitable provision"). These factors existed in Elizabethan England, with its hordes of vagrants roaming the countryside, but the wide open spaces of the New World at once limited the numbers of landless wanderers and provided an excuse for giving those that did appear short shrift. As a result, the resident paupers of rural America were mostly known individuals with known forebears. The question, "Why doesn't Smith support himself?" was answered ad hominem, by reference to Smith's antecedents, character, and luck. While this process, of course, did not absolutely insure that Smith or his family would not be stowed away in a verminous county almshouse or asylum, such places were, so to speak, the id of the rural welfare system; they were not its definitive or dominant form.

In the cities, however, the abstract question had to be asked, and the answer--"People work to avoid starvation"--had to be accommodated to the basic moral principle that civilized communities do not willingly allow anyone to starve. The extreme Social Darwinist solution of denying the moral principle was not, to my knowledge, ever deliberately applied, but the depths of deprivation that were allowed to exist at the turn of the century are suggested by infant mortality rates in New York City that sometimes exceeded forty and even fifty percent of live births.

The fact was that "less eligibility," an essentially humane doctrine, was hard to implement so long as many (in some places, most) jobs carried a wage insufficient to keep even a small family from starvation. The result was that the new paternalism did not discard but merely secularized the salvationist orientation of the old, focusing on a heavenly tomorrow to be attained by hard work, and espousing harsh measures to discourage idleness.

However, the new secular religion differed importantly from the old in lacking a personal deity. Associating material and spiritual progress with the application of reason to the manipulation of mundane things, its major tributaries--Social Darwinism, Marxism, the "common sense" values of the new middle class--variously converged on the utility and propriety of an impersonal perception of human beings as "labor": that is, as a thing.

Occurring in the cities, where, in any case, the sheer scale of need subordinated individuals to statistical aggregates and "Christian charity" to bureaucratic regulation, this development produced a partially camouflaged split between those who indirectly shaped public provision for the needy, and those--social workers, teachers, doctors, Lady Bountifuls--who dealt with the needy directly. The leaders among the latter groups came to embrace a doctrine of professionalism which predicated efficient assistance to individuals on "scientific" methodologies for manipulation of behavioral norms. To this extent they accepted the industrial-era ethos, but the extent was severely limited by day-to-day contact with suffering human beings, by the limited availability of "scientific" methodologies, and, not least, by ambiguity of goals. That is, "efficient assistance" was not a self-defining term. One must ask, "Efficient for what?" and few who dealt with the needy directly were confortable with the reply, "For the production of better workers." Indeed, before the 'Thirties, there was a clear tendency of the newly credentialed helping professions to formulate what we would now call humanistic or post-industrial values, centering on a mystique of self-fulfillment; and this tendency was reinforced by the traditional anti-industrial biases of the upper-class academic and bohemian elite.

The Depression smashed this coalition of pragmatic personalists and snobbish romantics by creating a situation in which it became impossible to ignore the substantial dependency of personal wellbeing on forces beyond individual control. The romantics became revolutionaries or withdrew from social involvement. The pragmatists became New Dealers who occasionally asserted but mainly subordinated the value of personalism to the urgencies of the time.

Now, where are we, forty years later? A decade ago we experienced a resurgence of personalism which spawned large numbers of programs to "help the poor help themselves." Necessarily, as a national crusade, this war on poverty categorized individuals but, for a time, with increasing refinement. A "foster grandparents" program was created, for instance, to help the able-bodied elderly feel useful. Manpower training splintered into programs for convicts, for welfare mothers, for the Spanish-speaking, for youth who required "prevocational" training, for Negroes barred from apprenticeship programs, and so forth.

I hesitate to say that this type of approach became discredited with the general public. Certainly, many faults of implementation were adduced, but these could be blamed on shortcomings of administration, rather than on the inherent undesirability or unworkability of programs that tried to differentiate among the needs of the poor. Moreover, the nature of public sentiments on this subject was obscured by the alarming, parallel growth of public assistance rolls and budgets, and by such other developments as soaring crime rates, the heroin "epidemic," and the deterioration of achievement and discipline in inner-city schools.

Confronted with all of these things, the public seemed at once to be telling Washington to slow down and to hurry up; to stop innovating and to produce the once-and-for-all solution; and this confusion provided a fertile ground for a new school of welfare experts who promised that the welfare mess could be simplified, purified, nationalized, and computerized out of existence.

Who were these new influentials? Most, initially, were economists, some of whom had been arguing for a good many years that Federal social welfare policy should center on cash transfers to the poor. This was sometimes coupled to the aim of radical income redistribution, but the dominant factor was often, instead, a perception that the characteristics of today's poor invalidated the traditional public-policy aim of maximizing labor force participation. The crisis mentality that had dominated political economics in the past, the *necessity* that work should appear preferable to indigence, had atrophied in the face of statistical documentation that most indigents were old people, children, and the children's husbandless mothers. In this situation (and also with the unemployment rate dipping to 3.3% in the late 'Sixties), it is not surprising that political economists were drawn toward ideal formulations in which not only messy personalism but the uncomfortably euphemistic abstractions of the industrial-era ethos were supplanted by a pure money ethos. The values that money itself embodies--abstraction, standardization, and a transaction-focused concept of efficiency--became the new ethic and esthetic.

In the extreme form of this new concept of "welfare," need is entirely equated with income level for the purposes of national policy. Moreover, provision for the needy (so defined) is to be abstracted from local situations to the national level, possibly in the form of a negative income tax, which will operate as mechanically as the positive income tax. Efficiency is defined as the smooth performance of this closed system. The system is efficient because it minimizes administrative and professional discretion and (thereby) administrative costs.

For several years, this construct (reminiscent of Edna St. Vincent Millay's line, "Euclid alone has looked on beauty bare,") almost wholly constrained influential debate on the "poverty problem." Beauty bare was the elimination of human factors from the definition of and provision for the needy. Beauty bare, alternatively, was the identification of social justice with formulas to alter the geometry of income distribution.

But an adequate political constituency for this ideal did not develop. As is attested by the history of the Nixon Administration's Family Assistance Plan, the public and the Congress were not ready to separate support for the poor from the "work ethic" and from fear of malign effects on labor supply. While other theories for the failure of the FAP proposal have been proposed, my own opinion is that this wish-fulfilling, simple, mechanical program was encumbered and sabotaged by an apparatus of "work requirements" that was, at once, politically essential, objectionable to true believers in the new ethic/esthetic, and hopelessly implausible of sufficiently funded and methodologically effective enforcement.

In the face of this debacle, a number of political economists have concluded that anything suggestive of greater liberality toward "welfare mothers" is political poison at this time. Without discarding the ideal of "beauty bare," they have temporarily shifted attention to income-raising formulas for the "deserving" working poor. But I question that "beauty bare" is politically palatable in any form, in the absence of very severe and protracted economic derangements. It may also not be technically feasible--at least in the form of a negative income tax or a family earnings supplement that would function with acceptable levels of error, delay, and fraud--but this only becomes important if such a program is enacted, which it is not about to be.

The superficial appeal which stemmed from severe and protracted *social* derangements in urban slum areas is easy to explain other than as the van of a massive attitude trend. After all, many people were panicked by the inability of local officials to stem rapid growth of the welfare rolls. As the rolls have stabilized nearly everywhere, the urge to pass the buck to Washington, to distant experts and computers, has dissipated.

Moreover, what money symbolizes is not "beauty bare" to most Americans; most think of money as dirty. The mother who buys her child a lukewarm pretzel from a street vendor will sternly instruct him to wash his hands after handling coins. A cultural awkwardness exists about the exchange of money for a good or service between people who are personally acquainted. Rather than growing acceptance of a money ethos, a multi-faceted money neurosis may better explain a good deal of the superficial popular support for an income-support system untouched by human hands. But this neurosis could as well produce popular support for a welfare system that deemphasized money distribution, were such an option offered. (The Congress's recent readiness to approve steep annual increases in food stamps appropriations may be a case in point.)

In this connection, we should also bring into the picture the "post-industrial" values I mentioned in discussing the 'Twenties, because these are inimical to the ideal of depersonalization and monetarization of need. As Americans move away from the urgencies of a near subsistence level existence, they discover a wide array of psychic needs that do not correlate inversely with income very well. Money that might go to alleviating income poverty is spent instead on trying to satisfy these needs of one's own, and "helping" professions expand and proliferate to meet this market demand. But, at the same time, egalitarian or charitable sentiments become confused. Surely, the poor also have psychic needs. Even if deprivation and discrimination have stunted the growth of some such hungers, or dulled them into apathy, this hardly takes society off the hook. To give the poor money is simply not enough.

The placement of rising value on psychic needs sabotages the aim of a "beauty bare" welfare policy, but it would be wrong to construe this as the result of adding something we don't know how to do--meeting psychic needs--to something we do know how to do. In fact, complex corrections of money flow (to "eliminate poverty," to give women "equal pay for equal work," etc.) only appear simple because the implementary formulas rest on dynamics-analyses in which the "simplifying assumptions" beloved of economists substitute for the thoughtful study of psychic factors.

Thus, for instance, it is assumed that the poor would prefer--their mental health would be improved by--impersonal cash transfers, yet this is hardly self-evident truth. There is sound evidence that welfare mothers are not demeaned by the welfare worker's invasion of their privacy but derive reassurance from it and feel abandoned if it stops. Also, in the abundant survey data confirming welfare recipients' commitment to the "work ethic," there is a basis for inferring that the welfare mother's aspirations for her children would cause her to be very troubled about the influence on the children of a public assistance system wholly cleansed of cultural stigma and embodying the concept of a "right."

Similarly, it cannot be said with any assurance that a public which approves of the progressive income tax may be assumed to favor the aim of income redistribution more generally. Do most Americans see the tax system primarily as A aiding B, or as citizens pooling resources for mutual gain? I suspect that the latter is much the more commonly perceived ideal, and, while this ideal admits of higher tax rates for some than for others, it demands of reformers reasons for tax expenditures that do not offer direct benefits to the average person.

On this matter of reasons, it is entirely possible that the money-ethos cult could phrase a proposition with which a solid majority of Americans would agree--say, something like: "A society so affluent as ours has a clear moral obligation to provide the poor with an adequate income in a dignified way." But I would not be satisfied with such evidence that the public is ready to go for "beauty bare." Beyond the obvious objection--who is to say what "dignified" means?--I have an uneasy feeling that the terms, "poor" and "income," are crude, distortive surrogates for what is really meant.

For all the water that has passed under (and sometimes over) the bridge, I would argue that the American public still views the ideal welfare system as one which alleviates exceptional need by means that satisfy a moral obligation to judge and aid the needy individual, as such. I would argue that what we call "welfare" cannot be isolated from other aid-giving and aid-receiving transactions; that is, from other temporary and permanent provider/dependent relationships, including parent/child at all stages of the life cycle, employer/employee, neighbor/neighbor, and a host or relations of individuals with officialdom. In all of these, there is operative the law under which the provider demands gratitude and "good behavior" of the dependent; and it may be argued that, whether the dependent accommodates or rebels, he or she needs these demands as means for achieving an orientation with respect to the larger society that is not exclusionary in the sense that the monkeys in the zoo, for whom we "humanely" provide, are excluded.

"What of the old?" one may object, shedding a tear, but the fact is that we do treat the old like monkeys, although we call it Social Security and Medicare. Were we to provide the full range of services needed by the progressively enfeebled and the retired (qua banished), we would indeed expect gratitude, and often receive it.

I suggest that, across the board, the needy require face-to-face encounters, and so do the aid-providers. Ambivalence surely exists--my own squeamishness tells me so--but this ambivalence cannot be resolved by satisfying one component, which is what the "beauty bare" formulations would attempt to do.

I suggest that our shift from an industrial economy to a service economy (to the extent that it occurs) will be paralleled by a shift from an industrial-era ethos to a service ethos, emphasizing personalism and localism. I see the War on Poverty as a first move in this direction, and revenue-sharing as a second. I am not surprised at all that the menu of possible welfare reforms promised for fall by DHEW includes a revenue-sharing option: in effect, passing the buck on "welfare mothers" back to the states and localities where such people live.

This trend (if it is a trend) toward a service ethos, including the reintroduction of human factors into welfare policy, does not leave me especially sanguine. It will unquestionably be exploited on a grand scale by helper "professionals" who demand and receive high pay for a science they lack, and who make matters worse by wrapping themselves in self-deluding self-righteousness and talking a jargon that nobody understands. It will be tainted by small-brained local bureaucrats who will lord it over the genuine victims of circumstances, and by grafters and sharpers who figure out how to play the system. It will be plagued by an electorate whose sense of what's wrong with the system will always be a year or two out of date, and by the local politicians this electorate puts in office.

In short, the welfare mess is permanent. It cannot be nationalized, localized, computerized, or professionalized out of existence. On the other hand, certain stark forms of human suffering can be further reduced, and it is not excessively optimistic to suppose that, twenty or thirty years hence, the purchasing power (less probably, the cash income) of everyone who is willing to meet minimal social requirements will be above an appropriately adjusted poverty line. Possibly, also, increased leisure will enlarge the role of voluntary assistance to the needy, but the great increase in job-holding by married women means that the present trend is in the opposite direction.

Changing patterns of residence and job location--centrifugal tendencies within metropolitan areas, the development of new communities along the interstate highways--may also operate to create more life-sized settings for the provision of aid to the needy, although there is some question whether fuel prices will counter other factors to slow or reverse this trend. Finally, there may be a good deal of experimentation with mutual assistance mechanisms in areas where neediness is concentrated. The previously mentioned "foster grandparents" program still survives. The Community Action Agencies, while their future remains uncertain, have gravitated away from political militancy toward community brokerage and service functions. Efforts to train and use the local marginally employables as "paraprofessionals" in schools and health centers are widespread. The exorbitant costs of the standards set for public day care centers are producing experimentation with less formal cooperative arrangements. There is a spectrum of local efforts to supplement law enforcement, especially against narcotics, ranging from murderous vigilantes to credentialed police auxiliaries. There are several efforts to develop poor-farmer cooperatives, or even marketing cooperatives linking rural and urban poor areas.

That Federal policy will soon acquire an emphasis on encouraging such things is not to be expected, nor does it seem likely that many state or local governments will use much of their own or their revenue-sharing money in this way. Nor should they. Throwing money at problems that require slow-motion approaches is counterproductive. But so is the aim of "rationalizing" provision of "welfare," unless construed modestly as a perpetual process of tinkering with the bureaucratic representations of ambivalent social values and aims. I suggest that we are moving into a period when this will be known, and when intellectual fashion will swing toward a new extreme of scorning preoccupation with macro solutions as adolescent. Of course, another Great Depression would turn that around.

APPENDIX

A HAND-BOOK
for
VISITORS OF THE POOR IN LONDON

By: Charles B. P. Bosanquet, M.A.
Published in London, England, 1874

1. Introduce yourself on your first visit as a neighbor anxious to be on friendly terms with those amongst whom you live. The London poor are accustomed to the notion of being visited, and are more inclined to complain of being neglected, than to look on a Visitor as an intruder.

2. Never state the object of a visit as being to see whether any relief is wanted, for the visits of one who is regarded only as a person from whom something is to be got, are rather worse than useless.

3. Be always respectful in manner to those whom you visit; remembering that you have no more right to enter their rooms without their consent, than they have to enter yours. Do not visit at unseasonable times, such as Saturday afternoons and meal times.

4. Do not force your presence upon those who show an unwillingness to receive your visits; but express to them in a friendly manner your readiness to call again if they should hereafter wish it.

5. Always remember the possibility of being deceived; but avoid wounding the feelings of the poor by showing distrust unnecessarily.

6. Keep an accurate register of the families in your district, with a record of your visits to them, and enter legibly in it any facts you may learn as to the condition of each family, so that if you have to relinquish the work, your successor may know at once how to be most useful in your place.

7. Never make entries in your book during a visit; to do so would make your call less friendly.

8. Listen to, and, if possible, interest yourself in, what people are willing to say of their own concerns; but avoid repeating to others anything that you may have thus learnt, unless it be for the purpose of benefiting your informant. Disregard of this recommendation to reticence is often attended with most disastrous consequences. Refuse, at once, to hear anyone speak in terms of detraction of his neighbors.

9. Beware of favouritism, whether in little or great matters; and let those whom you visit feel that you are acting always with perfect impartiality.

10. Avoid anything like dictation in any suggestion, however valuable, that you have to make; and be careful not to make such suggestions in the presence of neighbors, or even of the children of the family.

11. Whenever you perceive a want of personal cleanliness, or a neglect of proper ventilation, take an opportunity of gently advising some improvement. These points are so essential to the health of a family, that even though your advice be not, in the first instance, attended to, it will be well to refer afterwards to the subject until a change be made.

12. Keep those whom you visit informed of their rights and duties as to removal of dust and other sanitary provisions; and if you observe any serious sanitary defect in their houses or neighborhood, call the attention of the Medical Officer of Health or of the Inspector of Nuisances to it.

13. When you can do so, without offense, communicate any simple receipts for cookery, and make suggestions for the greater comfort of the table or the house.

14. Inform yourself about the schools in the neighborhood, that you may encourage those whom you visit to send their children to one or other of them; and that you may be better able to interest yourself in the children's progress, and to remove any groundless dissatisfaction on the part of the parents; interest in the children is a long step toward friendship with the parents.

15. Urge on parents the importance of getting their older children out, and of selecting such kinds of employment as afford the greatest advantages in the long run, rather than such as are most remunerative at first. Thus it may often be expedient to apprentice a boy to a trade rather than to make him a mere errand-boy; and girls, if intended for domestic service, should either be sent to schools where they will get special training, or put into situations from which they are likely to rise to better places.

16. Do all you can to encourage the formation of provident habits. The savings of the poorest and least intelligent classes should be collected regularly from house to house in connection with a local Provident Fund, or Penny Bank. As they become more aware of the advantages of saving, endeavor to induce them to open a permanent account with the Post Office Savings Bank. If the husband wishes to join a friendly or benefit society, encourage him to join a large and strong society, such as the Foresters, Odd Fellows, or Hearts of Oak, and urge him to subscribe to the Widow's Fund (if there is one), as well as to the general fund of the Society, that his wife may have some provision in case she outlives him. If there is a Provident Dispensary in the neighborhood, mention it to those you visit, and explain its terms and the advantages which it offers.

17. Encourage a taste for wholesome reading by lending interesting books and periodicals to those whom you visit, and by telling them of any suitable lending library from which they can borrow. If the heads of the family cannot read, suggest that the children should be set to read aloud in the winter evenings.

18. Do not take on yourself unnecessarily the responsibility of distributing material relief. If it is known that you have public money to give away your influence as a friend will inevitably become less simple and wholesome. Fall in willingly with any arrangement by which the decision as to relief will be left to a committee or to a special visitor. Your duty will then be to report cases appearing to need assistance, and to enter into consultation as to the most effectual mode of helping them. If no such arrangement exists, endeavour still to keep material relief in the background as much as possible.

19. Be on your guard against being considered a kind of relieving officer; and, where you are well received, consider afterwards whether your visit may not have been valued simply for the sake of what you are expected to bestow.

20. Beware of allowing importunity, or the excitement of a monetary sympathy, to obtain from you an aid which your conscience disapproves. Seldom give relief to a family till after at least three visits.

21. Be on your guard against encouraging idleness, improvidence, or grosser misconduct, directly or indirectly. Great caution should be exercised, for instance, in assisting the wife and family of a druken husband. Do not fear that such needy persons as you refuse to relieve are left to starve; they are simply left to apply in another quarter for the relief which the law provides for them.

22. The best method of assisting deserving people when in need is to help those who are able to work to find employment. The District Committee of the Charity Organization Society, local Register Office for Servants, and the Labour Agency, 1 Long Acre, may be of service to you in special cases; but most classes of poor are better able to find work for themselves than a visitor is to find it for them. If there are any persons in your District, whom you can recommend as servants, needlewomen, or messengers, take opportunities of mentioning them to your friends.

23. In case of sickness, persons in receipt of parish relief, and destitute persons generally, are entitled to the services of the parish doctor, and should be recommended to apply to him; gratuitous assistance can generally be procured for other sick persons at some local dispensary; but in justice to a not too highly paid class of professional men, as well as to avoid pauperising people, free medical relief should only be recommended where there is evident inability to pay. Where there is a Provident Dispensary within reach, the plea of inability to pay should rarely, if ever, be admitted, excepting where special treatment is required. The small weekly payments required by the Provident Dispensary are within the reach of almost every one above pauperism. You may sometimes with advantage pay the premium which is required from persons who only begin their subscription to the Provident Dispensary when they have illness in their family. You may at other times do much good by procuring admission to a hospital, after ascertaining from the doctor in attendance that the case needs special treatment.

PERCEPTIONS AND POLICIES

PUBLIC PERCEPTIONS OF NEED AND POLICY

"The 'Outdoor Relief' Controversy Revisited: What Have We Built on This Base-line?"

by

Jane Newitt

This chapter was originally issued as a Hudson Institute Discussion Paper under the same title, dated October 1, 1974, HI-2117-DP.

THE "OUTDOOR RELIEF" CONTROVERSY REVISITED: WHAT HAVE WE BUILT ON THIS BASE-LINE?

During the twentieth century, institutional care of the indigent poor has become restricted to the severely disabled. The poorhouse, almshouse or workhouse has disappeared from the scene. What was formerly termed "outdoor relief" has become so securely established as the means for supporting people who can't support themselves that we tend to forget that there was a time when Americans who regarded themselves as enlightened humanitarians considered it a dubious carryover from the rural past.

Since no sentiment exists in this country for reviving the poorhouse, the turn-of-the-century arguments for and against "outdoor relief" might seem of interest only to historians. This was my assumption until I read the succinct presentation of these arguments in Amos G. Warner's American Charities (1894)*, but I found Warner's formulations illuminating as establishing a conceptual baseline for the modern debate on public assistance.

Warner presented four arguments for and five against "relief of the poor in their homes" rather than in the almshouse or workhouse. I will quote these and comment on them in his order.

As introduction, Warner states of outdoor relief that "its fundamental principle is that the aid shall be temporary or only partial. The evils connected with this form of relief have long been a matter of controversy, and in this country the agitation against it has gained headway in almost direct proportion to the density of population. The flagrant abuses of the system in the large Eastern cities led to a concerted movement for doing away with it from 1878 onward....The following are the principal reasons given by those who believe in retaining it as a fundamental part of the relieving system:

---

*Quotations are from the 1908 edition, revised by Mary Roberts Coolidge, Ph.D., "formerly associate professor of sociology in the Leland Sanford Junior University."

> "1. It is the natural and therefore the kindly way to help, because it grows out of the neighborly relations of rural communities. The poor person is not separated from relatives and friends, families are not broken up, and the receipt of relief is not as conspicuous and consequently as disgraceful as it is where resort must be had to an institution." (Emphasis in original.)

Comment: This interests me because it supports my own argument about the importance of rural origins in determining our attitudes toward and provision for the needy.* However, the current tendency, at least among intellectuals, is to regard the personalized character of "outdoor relief" as a defect. The fashionable ideal is exemplified by social security: an impersonal, mechanical system for disbursing money to anyone who meets whatever criteria for entitlement are established.

> "2. It is economical. Many families can almost support themselves, and it seems folly to dismember them and place the children in refuges or board them in private families, and compel the adults to resort to the poorhouse, when a little relief given in the home would keep the family together and enable them to make part of their support by ordinary methods."

Comment: This expresses a persistently strong aim of the welfare system. Ironically, the actual workings of the system have themselves become associated with the evil of family break-up. Current thinking proposes a next step of extending income support to the male working poor under a formula that would define "need" in relation to earnings and family size, thereby (it is hoped) encouraging poor families to remain intact.

Warner's arguments #3 and #4 are the least interesting, from a modern perspective, and I quote them without comment, proceeding directly to "the other side."

---

*See J. Newitt, "Welfare in a Money Economy," HI-2022-DP, July 12, 1974.

> "3. There are not institutions enough. The demand for relief always keeps considerably in advance of the supply....Especially in the winter months, a large number of persons need relieving for a short time...
>
> "4. Individual private charity--the other alternative of public outdoor relief--is unreliable and, in times of special distress, insufficient. Some of the worthy poor are likely to be neglected, while relief to others will be duplicated, and these latter are sure to be pauperized.
>
> "On the other side, the following considerations are urged:
>
> "1. The kindness is apparent rather than real, for, except in the smallest communities, the administration is in the hands of officials who have no personal knowledge of the applicant and who can neither investigate nor discriminate."

Comment: In other words, outdoor relief is undesirable in part because of population densities that prevent it from conforming to the kindly (nosy, etc.) rural model. Warner develops this point further with an interesting generalization:

> "It has long been a principle that any work was suitable for a government to do in proportion as it could be reduced to a routine and done in a semi-mechanical way. As the work of giving outdoor relief should not be done in this semi-mechanical way, it is unsuitable for public officials to undertake." (Emphasis added.)

Oddly, with the exception of the "should," we have here the perception of government's proper role which was asserted, circa 1970, in opposition to the war on poverty. In between was a very long period in which hardly anyone denied that the government should or could aid the needy in a personal style, although there was a sharp division between those who favored emphasis on professional social workers, and those who declared that "No damned social workers are going to come into my State...," or more moderately, that "assistance should be handled by people of local ability who have knowledge of local conditions and the background and surroundings of the people."*

Of course, the modern critique of public assistance differs entirely from Warner's argument in its opposition to the "demeaning" invasion of the aid-receiver's privacy by the social worker, but, again, as with concern about keeping poor families intact, the appearance of a next step above a conceptual baseline exists. The central theme of opposition to the poverty war and to the present "welfare" system, at least among the upper middle class, has been that government should concentrate on what it knows how to do, which is seen (as by Warner) to exclude personalized aid to the needy. It is public assistance itself in the modern version that "could be reduced to a routine and done in a semi-mechanical way."

> "2. It tends to increase the number of applicants, because it is less manifestly disgraceful than the indoor system, and is much more pleasant to receive. The saving in cost for a single person supported is more than made up by the additional number of persons that will claim to require relief....[I]f no requirement except indigency is made, a large number of persons will become duly indigent in order to qualify for the receipt of alms."

Comment: While no longer used as an argument against "outdoor relief," this is of course the standard argument against liberalizing eligibility, benefits, and the style of aid-provision. Warner elsewhere alludes to the danger that assistance be viewed as a right, and to the especially bad

---

[*] Quotations are, respectively, from Rep. Fred M. Vinson of Kentucky (1935) and Rep. Edward McCormack of Massachusetts (1939). The pro-professional viewpoint became dominant after the war, as illustrated by HEW Secretary Abraham Ribicoff's explanation of the public assistance services funding provision of the Social Security Amendments of 1962: "It refers to specific, long-term help which can be extended by properly trained workers through frequent home visits, guidance, counseling, and use of all available community resources...." All quotations are from Martha Derthick, The Influence of Federal Grants: Public Assistance in Massachusetts (Cambridge, Mass.: Harvard University Press), 1970.

influence of such an attitude on the children of the poor. These remain major concerns today.

> "3. Corruption of politics invariably results from the system, and the whole tone of the population is likely to be lowered. In many cases, it is unworthy motives favoring the retention of the system that makes it difficult to secure its abolition."

Later in the chapter, Warner fleshes out this generalization with a quotation about the situation in Brooklyn in the mid-1870's. The speaker is Mayor Seth Low:

> "The friends of politicians received help whether needy or not.... Families with voters were the first served. The 'outdoor relief' appropriations became a vast political corruption fund. Large numbers of the population were taught to rely on the county for help, and sought it for no other reason than that the county gave it. One woman received help under nine different names. Many sold what they received. Men came from the country every autumn to live at the expense of the city during the winter....The poor did not get the chief benefit of increased appropriations. Most of it went to underlings connected with the work of distribution....
>
> "In 1875 the Commissioners of Charity employed paid visitors to investigate the cases of applicants for relief; and it cost sixty cents to distribute every dollar's worth of food or fuel. This was so monstrous that public clamor compelled a change. In 1876 the visiting system was abandoned, and all applicants were compelled to take oath that they were paupers. As may be imagined, the result was horrible. Moreover, many who lived in New York availed themselves of such easy opportunity to be fed by Brooklyn."

Comment: Despite the fact that public assistance proper has been effectively taken out of politics, Mayor Low's account bears some startling resemblances to the developments of the 1960's. Administrative responses to sharply rising applications for assistance followed a similar pattern with similar results in the two periods. The causative role of basic economic conditions is not similar, but it is interesting that Warner barely mentions the severe depression that followed the panic of 1873. He perceives Brooklyn's welfare explosion much as Americans perceived that which occurred in the prosperous 1960's, and possibly he is more right than wrong to do so.

That is, one might say or speculate that *whatever* initiates a sharp increase in the availability to the poor of tax-supported unearned income and/or goods, the problems and responses that follow are rather similar. Thus in the 1960's the welfare explosion fed on itself, the poverty war programs quickly were tainted with political corruption, and these programs--and, as well, Medicare and Medicaid, the housing assistance programs, the small-business loan programs--evoked complaint that the chief benefit did not go to the poor but to those "connected with the work of distribution."

As to what happened afterward in Brooklyn, Warner's account leaves one wanting to know about after the afterward, but here it is:

> "At the urgency of an association formed under the auspices of the State Charities Aid Association, between 200 and 300 volunteer visitors were set at the work of investigation in 1876-1877. As a result, the visitors were convinced that many families habitually applied for relief merely because their neighbors were receiving it, and they recommended the abolition of outdoor relief, by stages, if necessary. The Commissioners of Charities did not accept the recommendation, but in 1878, the whole system having been discovered to be illegal, it was suddenly discontinued.
>
> "To the surprise of all, no increased demand fell upon the private relief agencies during the winter following, no suffering appeared, and the numbers in almshouses did not increase. In fact, the figures...show a steady decrease of relief per capita in the years following. This was due, no doubt, partly to the return of business prosperity...; but it is believed that it also represents to some extent a recovery from the pauperism induced by lavish and indiscriminate public relief."
>
> "4. Where outdoor relief has been given lavishly, as in England at some times and places, it has simply resulted in reducing the rate of wages, the amount given in relief being reckoned on as a possible resource, so that the employee would accept lower wages than would otherwise have been possible."

Comment: Warner makes no reference to a legal minimum wage[*] as a means of countering this tendency, and he cites no American illustrations, although it seems plausible that outdoor relief did function as an informal, indirect subsidy to employers in slum areas during depression periods.

So long as outdoor relief was universally viewed as temporary emergency assistance, the connection to low wages was not seen as important. However, some 1970's writing on the so-called secondary labor market does begin to suggest that the viability of many marginal businesses and industries which provide low-paid, low-security jobs is intimately related to the government's provision of income maintenance to women and children under AFDC and, in many states, to support of families headed by an unemployed or "underemployed" male under AFDC-UP.

To my knowledge, this hypothetical relationship has not yet been brought into discussion of the negative income tax, demogrants, and other proposals to put a universal floor under income, although it sometimes is mentioned (where I've seen it, in the manner of a casual aside) in discussion of wage or earnings supplements. This omission is explicable in terms of the social policy analyst's habit of assuming a neutral (i.e., moderately optimistic) economic forecast. Warner knew better. I suspect we are learning better fast. Even apart from considering the impact of as yet unenacted programs, it is worthwhile to study the larger economic effects of existing income maintenance programs in a situation where (for instance) inflation greatly outpaces the presently programed increases in the minimum wage.

---

[*] Twenty years later, the minimum wage was a standard component of the social reform package, as were unemployment insurance, disability compensation, sickness pay, government pensions for the elderly, and improved legal status for trade unions. If Warner's American Charities is representative of the academic orientation of his time (he was a professor of economics and social science at Stanford University), the next generation is equally well represented by Jacob H. Hollander's The Abolition of Poverty (1914). Hollander was a professor of political economy at Johns Hopkins. However, even in 1914, Hollander vigorously deplored "the shiftlessness, the malingering, and the vagrancy of the work-shy." Such were "as definitely diseased as the inmates of hospitals, asylums, and infirmaries." Only this disease theme differentiates his view from Warner's. Thus Hollander holds that, for the work-shy, "medical and correctional devices in the nature of labor colonies and reformatory schools can properly replace the existing ill-considered provision of food and shelter."

> "5. It is not educational either to the recipient or the official donor. In the one it tends to destroy thrift and self-restraint; in the other it encourages a spirit of complacent generosity without any corresponding personal sacrifice and exercise of judgment. Any charitable method which does not develop both sympathy and discrimination is about equally injurious to the administrator and the recipient."

Comment: "Everybody" would dismiss this argument as hopelessly old-fashioned, with the possible exception of a majority of the American people and the Congress. Since Warner's cop-out was rejected--that is, since the impossibility of leaving "outdoor relief" to private charity was frankly and fully accepted--we have sometimes hoped that the professionalization of social work, education, and other services to the poor could prove an efficient means to implement traditional social values, and we have sometimes courted the equally fallacious notion that social welfare policy can be reduced to its economic aspects; but we have yet to satisfy our yearning for a rational, orderly welfare system.

Warner was himself already caught up in this syndrome so far as private charity was concerned: "The older type of private outdoor relief--unsystematic, purely palliative--is rapidly being replaced by the constructive ideal of organized charity"; and he elsewhere speaks of the scientific principles of modern organized charity. Further, his opposition to public relief is not dogmatic but particular to the American situation:

> "On the whole, it must be admitted that the advisability of giving (public) outdoor relief is chiefly a question of administration. Under the Elberfeld system in Germany, and with the great care exercised by the Bureaux de Bienfaisance of France, it has been successful. But it must be remembered that the people of the United States have a larger share of administrative awkwardness than any other civilized population...."

This last sentence is the second-last baseline statement Warner gives us. So far as state and local government are concerned, it remains nearly non-controversial, but a rather remarkable faith in the potential for purity and efficiency of the federal government has been constructed on this base, starting with the Progressive era. In the process, federal dominance of social welfare policy and its funding have become so securely established that "faith" may no longer be required to preserve or extend it. The huge, unwieldy machine that we are still in process of building on Warner's baseline seems unlikely to be dismantled no matter how poorly it runs.

Finally, there are the last two sentences of Warner's book, which establish the context in which successive waves of welfare reform have occurred and will continue to occur, unless or until the welfare system itself outgrows the economy on which it depends:

> "It was once the accepted doctrine that prosperity and happiness were the natural results and reward of goodness, but the social worker in daily contact with the poor sees that their poverty comes from a deeper source than the vices or virtues of the individual--from sources which can be reached only by industrial and social changes which it is beyond the power of a single generation to make. In the knowledge of this fact, the charitable are filled with a true humility in the presence of the poor and without revelling in sentimentalities, still helping those who need help, they take part at the same time in the greater movement for the abolition of the conditions which make dependence inevitable."

PERCEPTIONS AND POLICIES
THE MEASUREMENT AND REDUCTION OF POVERTY

"A Quarter Century of Poverty in the U.S., 1947-1972: Definitions, Change, Continuity and the Future"

by

Peter Karsten

This chapter was originally issued as a Hudson Institute Discussion Paper under the same title, dated August 26, 1974, HI-2068-DP. This is a revised and updated version of that paper.

A QUARTER CENTURY OF POVERTY IN THE U.S., 1947-1972: DEFINITIONS, CHANGE, CONTINUITY, AND THE FUTURE

Poverty may be defined in a number of different ways--in terms of one's self-esteem, one's political and civil rights, one's ability to realize potentialities, or one's physical or immediate economic security. I have in mind all of these when I speak of poverty, but I am inclined to feel that the last named, immediate economic security, is the more useful one to discuss, in that it is relevant to all the others and in that it is the more commonly used definition. It is perfectly reasonable and appropriate to draw an absolute monetary "poverty line" (such as the Census Bureau's "Orshansky line", the prevailing one since the 1960s in the literature on poverty in the U.S.) which measures the cost of a "basic" or "minimum" standard of living, but poverty may also be regarded as a "relative" term (be it the economic, physical, political, psychological, social or philosophical kind), and one might draw the poverty line wherever local communities draw their public assistance lines. In Adam Smith's words:

> By necessities I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.*

But since public assistance levels vary widely from locale to locale and from program to program, the "Orshansky line" seems preferable (especially inasmuch as it does provide a number of consumer unit variations).

---

*Smith, The Wealth of Nations, Book 5, Chapter 2, Part II.

This willingness to draw a "poverty line" says neither that persons could not subsist below such a line (millions do in the U.S., hundreds of millions in the rest of the world), nor does it say that the line should not be drawn higher as does the Bureau of Labor Statistics "lower-level" budget (cost of food times 4, rather than Census Bureau's CPI updating of the 1963 "Orshansky" line's cost of food times 3) or as the National Welfare Rights Organization does (50 percent of median income). But consistency is important, and so is being understood. Hence, despite Gallup evidence that the public may draw a kind of poverty line much higher than the Census Bureau's "Orshansky line" we will utilize the Census Bureau's line throughout. Why?

We might utilize the Gallup evidence as a relative measure of poverty. Were we to do so without qualification, we would find that there has been some slight decline in relative poverty in the U.S. over the past quarter century. If we use the actual dollar figures obtained by Gallup, we can estimate (through extrapolation) that the percentage of American families relatively "poor" has fluctuated very little from a high of 37 percent in 1947 to a low of 28 percent in 1968 (See Table 1). Perhaps the relative prosperity of the Korean war years and of the mid- and late-'60s may have reduced the percentage of those "relatively poor" families at an unusually rapid rate, and the tapering off of the economic growth rate in the late '50s and early '70s may have caused a rise in the percentage of those "relatively poor".

TABLE 1*

APPROXIMATE PERCENTAGE OF FAMILIES RELATIVELY "POOR" (BY GALLUP POLL DEFINITION) FOR SELECTED YEARS

1947	37%
1951	30%
1954	32.5%
1959	33.5%
1964	31.5%
1966	29%
1969	28%
1972	31%

However, it is difficult to draw any very useful conclusions from this Gallup data. In the first place, the question asked ("What is the smallest amount of money a family of four--husband, wife, and two children--needs each week to get along in this community") is ambiguous. When those respondents who are above the median income (many of whom live in suburbs with few low-income households) are asked this question, how many respond with low-income communities in mind and how many are thinking only of what the minimum costs of living are in their own affluent suburbs? After all, in 1967 such respondents gave figures to the Gallup interviewers that were 25 percent higher than those below the 1967 median income. And, in the second place, of those who *are* trying to imagine minimum costs in a low-income community, how many upper-income respondents know enough about housing costs, for example, in such low-income communities? (B. Bruce-Briggs has found that most upper income persons grossly overestimate the housing costs of low-income persons.**)

---

*Extrapolated from Gallup data, current income data in Table 8 of C.P. Reports, *Money Income* (Series P-60, No. 70, Dec. 1973), and Table 3 of C.P. Reports, *Consumer Income* (Series P-60, No. 12, 1952)

**Bruce-Briggs, B., "The Cost of Housing", *The Public Interest* (Summer 1973).

If we were to restrict our attention to the lower-income respondents, we might find the Gallup data a useful tool to "check" the adequacy of the "Orshansky" line. We would probably find that this adjusted Gallup "poverty" rate over the past quarter century more closely approximates the rate obtained using the"Orshansky" line than that obtained with the unadjusted Gallup data. But what population are we to consider qualified over time to judge minimum needs? Those below the median income? Those below 75 percent of the median income? Those below 50 percent of the median income? Those with incomes in the previous year that were below the adjusted or unadjusted Gallup data "poverty" line. Those below the "Orshansky" line? Obviously, we must begin with a judgement about relative poverty, which judgement will bias our data. Robert Kilpatrick not withstanding,* the Gallup data, while interesting, is ultimately of limited value. But it is of some value; I defer here to Irving Leveson of the Hudson Institute who has made more extensive use and analysis of the Gallup data as "definition" of relative poverty.

This does not mean that we will say nothing of relative poverty. We can, at least, report Barry Bressler's findings regarding changes between 1947 and 1971 in the share of income for the lowest quintile of income recipients (adjusted for family size). In standardizing for family size, Bressler found (not surprisingly) that income inequality was more severe than before standardization. (The poor have larger families). But he also found that the share of this adjusted lowest quintile was increasing more rapidly than had previously (before family size adjustments) been suspected (see Table 1A)*

---

* Kilpatrick, "The Income Elasticity of the Poverty Line", Review of Economics and Statistics (Aug.1973), 327-332, uses the Gallup data, without adjustments, to arrive at the conclusion that the "relative" poverty line increased at a rate of 60 percent of the rise of the median income between 1959 and 1971 (the years Kilpatrick choses for analysis).

TABLE 1A

SHARES OF THE LOWEST QUINTILE OF INCOME RECIPIENTS: ADJUSTED AND UNADJUSTED FOR FAMILY SIZE

YEAR	SHARE OF LOWEST QUINTILE ADJUSTED (PERCENTAGE)	SHARE OF LOWEST QUINTILE UNADJUSTED (PERCENTAGE)	DEVIATION AS A PERCENTAGE
1947	4.5	4.8	-6.3
1949	4.0	4.4	-9.1
1955	4.4	4.7	-6.4
1957	4.8	5.0	-4.0
1960	4.6	4.9	-6.1
1965	5.1	5.0	+2.0
1967	5.4[a]	5.4	
1971	5.3	5.3	
1947-71 change	17.8	10.4	71.2

[a] Not strictly comparable with the other figures, since the 1967 data were adjusted not only for family size but also for farm-nonfarm differences.

In short, the lower income quintile had larger families (and thus greater income inequality) in the past than they do now.

And the same may be said of the proportion of families earning less than half of the median income from 1947 to 1971. When adjusted for family size, the proportion of families below 50 percent of the median income is larger in 1947 than the unadjusted figure, for the same reasons offered in the previous paragraph (see Table 1B).

---

*Source: Bressler, B., "Income Distribution, Relative Poverty and Family Size, 1947-1971", Quarterly Review of Economics and Business, (Spring, 1974), 30-31.

TABLE 1B*

PROPORTION OF FAMILIES WITH LESS THAN HALF OF MEDIAN INCOME: ADJUSTED AND UNADJUSTED FOR FAMILY SIZE

YEAR	PROPORTION BELOW 50 PERCENT OF MEDIAN INCOME ADJUSTED (PERCENTAGE)	PROPORTION BELOW 50 PERCENT OF MEDIAN INCOME ADJUSTED (PERCENTAGE)	DEVIATION AS A PERCENTAGE
1947	23.4	21.8	7.3
1949	22.4	20.2	10.9
1955	19.9	19.8	0.5
1957	19.1	20.0	-4.5
1960	19.6	20.1	-2.5
1965	19.5	20.0	-2.5
1967	18.1[a]	18.7	-3.2
1971	17.9	19.3	-7.2
1947-71 change	-23.5	-11.5	-104.3

[a] Not strictly comparable with the other figures as explained in Table 1A

"Relative poverty", when defined in either of Bressler's degree-of-inequality modes, is clearly declining over the past generation.

---

*Source: Bressler, *op. cit.*, 33.

In-Kind Transfers, Unreported Income, and the "True" Number of Poor

In recent years a number of new income programs have come into existence which transfer in-kind (non-cash) benefits to the poor. Some in-kind transfers have been around for some time, of course. Free education is an example. But if we divide all in-kind transfers into those which are of an "investment" nature (such as education or manpower training) and those which are designed for immediate consumption (food stamps, public housing, Medicaire and Medicaid), we find that the vast majority of the latter type are less than a decade old.* We might devise a formula for computing the "immediate" value of such "investment" in-kind transfers as education, but we will not do so in this paper. We will speak only of "immediate consumption" in-kind transfers, as these seem the more reasonable ones for which it seems appropriate to try to impute dollar values.

In fiscal 1973 the Federal Government spent some 17.5 billions on in-kind transfers (see Table 1C). Some of these (Medicaid, public housing) cost the states an additional approximately 3.5 billion dollars.**

---

*Some of the public housing programs are not entirely new, but most are (rental supplements, homeownership assistance, rental housing assistance), and the funding levels are higher now than in the past. The same may be said of free medical care. Approximately 8 percent of the public received free medical care in 1959 (James Morgan, et al., Income and Welfare (1962), 143); but twice as many receive such care today (C.E. Advisors, Report to the President, (1974), 168), and the care is more extensive. I will assume that the average poor family in 1959 received about 25 percent as many in-kind medical transfer benefits as a poor family in 1972 (8 percent times the dollar value divided by the percent poor in 1959, over 16 percent (34.3 million 1972 medical aid recipients) times the dollar value divided by the percent of poor in 1972). Some free food was provided in the pre-food stamp era, but the total value of the transfer was but a small fraction of the present value.

**Packer, Arnold, Paper 9 of the Joint Econ. Committee's Studies in Public Welfare, (Aug. 20, 1973), p. 108.

TABLE IC

FEDERAL GOVERNMENT IN-KIND TRANSFER PROGRAMS
FISCAL YEAR 1973

PROGRAM	TOTAL EXPENDITURE (MILLIONS OF DOLLARS)	NUMBER OF RECIPIENTS (THOUSANDS)	MONTHLY BENEFITS PER RECIPIENT[1]	PERCENT OF RECIPIENTS IN POVERTY[2]
MEDICARE	9,039	10,600	71	17
MEDICAID	4,402	23,537	(3)	70
FOOD STAMPS	2,136	12,639	14	92
PUBLIC HOUSING	1,408	3,319	(3)	(4)
RENT SUPPLEMENTS	106	373	24	(4)
HOMEOWNERSHIP ASSIST. (SEC.235)	282	1,647	14	(4)
RENTAL HOUSING ASSIST. (SEC 236)	170	513	28	(4)

1 The number of recipients is for individuals, not families.
2 Poverty is defined relative to the money income and the size of the recipients family. Money income includes money transfer payments but excludes income received in kind. All percents are estimated.
3 Programs with Federal-State sharing of expenses.
4 Not available.

Source: Office of Management and Budget data in C.E.A., Report (1974), 1968.

Eugene Smolensky and a number of Institute for Research on Poverty colleagues have calculated that "the cash equivalent" of food stamps, public housing, Medicaire and Medicaid is "83 percent of taxpayers' costs."[*] Using a liberal 95 percent figure for the Food Stamp Program and a conservative 60 percent figure for public housing, Medicaid and Medicaire and utilizing the figures on percent of poor recipients

---

[*] Smolensky,, et.al., "Adding In-Kind Transfers to the Personal Income and Outlay Account", Institute for Research on Poverty,(March 1974),37

(Col. 4 of Table IC) in the Council of Economic Advisors 1974 Report, I arrive at a figure of 6.9 billions worth of in-kind goods and services transferred to the poor as opposed to an 8.7 billion figure using the Smolensky 83 percent figure. We will defer largely to Smolensky, and call the value of fiscal 1973 in-kind transfers 8 billion dollars.

What effect does "folding in" such an additional 8 billion dollars of transfers to the data on the 24.5 million listed by the Census Bureau as being poor in 1972 have upon our sense of the incidence of poverty in the U.S.? Inasmuch as we are employing fiscal 1973 in-kind transfer estimates to readjust 1972 Census Bureau figures (the 1973 figures being unavailable at the time of writing), we will reduce our ultimate estimates of poverty reduction somewhat to compensate for the fact that in-kind benefits grew in 1973 and 1974 (see below). Table ID gives us the size of the income deficit (amount short of the poverty level) for the typical poor family or unrelated individual since 1959, as well as aggregate figures of "the poverty gap" for those years. Note that in 1972 the aggregate income deficit ("poverty gap") was 12 billion dollars. If we "fold in" the 8 billions of in-kind benefits, the "poverty gap" drops 67 percent to 4 billions.

TABLE ID

INCOME DEFICITS FOR SELECTED YEARS
(All sums in Constant 1972 Dollars)

YEAR	MEAN DEFICIT PER FAMILY	MEAN DEFICIT UNRELATED INDIVIDUAL (1972 POVERTY LEVEL-$2101)	AGGREGATE (IN BILLIONS) FOR ALL CONSUMER UNITS
1959	$1,692	$1,124	$19.6
1963	$1,694	$ 988	$17.7
1967	$1,511	$ 930	$13.2
1972	$1,501	$ 904	$12.0

We can estimate the number of persons lifted out of poverty by the "folding in" of in-kind benefits. We first calculate the average per person benefit (8 billion divided by the number listed as poor, 24.46 million). This figure, $327.00, we adjust for Medicaire, an elderly-only benefit. As the value of Medicaire to the poor is 10 percent of the value of all in-kind benefits, we add 10 percent of the average benefit, or $33.00,to the average benefit to determine the average value of in-kind transfers to the aged--$360.00 per person. We then adjust the remaining sum for the non-elderly poor, and end with an average $320.00 per person value of in-kind transfers to the non-aged poor. We then multiply this figure by 3.86, the mean number of children in poor families, to obtain a sum of $1,235.00, the average value of in-kind transfers to the average poor family.* We then calculate the number (and percentage) of families listed as being poor in 1972 by the Census Bureau whose income deficit is less than $1,235.00**and the number (and percentage) of unrelated individuals listed as poor in 1972 by the Census Bureau whose income deficit is less than $350.00 (most poor unrelated individuals are aged). The number (and percentage) of families thus lifted above the poverty line by "folding in" in-kind benefits is

---

*Smolensky , et.al., calculate that the average household benefit of immediate consumption in-kind transfers was much less than this in 1970, or approximately $420.00 (op. cit., 21.). The Survey Research Center's income dynamics study data (for 1968 to 1972 also suggest annual in-kind benefits in the $400.00 range as an average for that period. Five Thousand American Families, II, 394-95.

**Here we utilize Table 43 of C.P. Report, Series P-60, No. 91, Dec.1973.

2.6 million (51.6 percent of all poor families), and the number (and percentage) of unrelated individuals thus affected is 1.15 million (23.5 percent). Rounding off conservatively further to compensate for overestimation of in-kind benefit values, we conclude that 50 percent of poor families and 22 percent of poor unrelated individuals, or about 10.7 million of the 24.5 million persons listed in 1972 as being in poverty were not in poverty, because they had received from the public sector in-kind benefits valued conservatively at 8 billion dollars.

Obviously, these are only rough estimates. Barbara Boland has recently called for the regular gathering of information on in-kind benefits within the Current Population Surveys.* I repeat her call for the regular collection, evaluation and reporting of such data, and for its incorporation into the analysis of the low-income population.

Barbara Boland also recorded Mitsuo Ono's 1970 memo to Roger Herriot in the Census Bureau, which compared income levels reported to census takers in 1968, 1969, and 1970 with income figures derived from Bureau of Economic Analysis and HEW data, to which we add 1972 data (see Table 1E).

It appears from this Table that from 10 to 14 percent of national income is unreported, and that about 20 percent of the income of those listed as being in poverty by the Census Bureau is not reported to the census takers. We shall conservatively assume that only 10 percent of the actual income of the poor is not reported to the census takers.**

---

*Boland, Barbara, "Evaluating Federal Income Support Programs", Public Data Use, 11 (January 1974), 20-21.

**Many public assistance and social security checks are lost or stolen, for example.

If we alter our data to compensate for this non-reporting, we find* that another 1.25 million persons are "lifted out" of the 1972 poverty population, leaving 12.5 (rather than 24.5) million persons, or 6.25 percent (rather than 11.9 percent) of the nation, in poverty.

Inasmuch as our estimates for in-kind benefits and unreported income reduced the poverty population of persons in poor families by 54 percent, and unrelated individuals by 31.5 percent, we may adopt a "family correction coefficient" of .54 and an "unrelated individuals correction coefficient" of .315 for 1972, and taper them both off to .15 (10 percent unreported income plus 10 percent for free food and medical care) for all pre-1968 years, and we may then make rough adjustments to the Census figures for all years. By applying these coefficients to Census data for persons below the low-income level over time, we have the following new estimates of the percentage poor: 1959-18.3%; 1962-17.5%; 1965-14.5% 1968-10.5%; 1972-6.25%.

By my reckoning then, the "war on poverty" is generally going well. But to determine just how well it is going, we must take a closer look at a number of subgroups of the poor. In this subgroup analysis (which follows) I will display both the original Census figures and, in parenthesis, my adjusted figures side-by side whenever it seems useful to make the adjustments.**

---

*We arrive at these figures by adding another 10 percent of the mean income (Table J, Series P-60, No. 91) of all families and all unrelated individuals listed as being in poverty to these mean income figures. This gives us $2,456.00 + $246.00 or $2,702.00 for families and $1,146.00 + $115.00 or $1,261.00 for unrelated individuals. We then add the in-kind benefits again, consult Table 43 in Series P-60, No. 91, again, and find that another 4 percent of families, or 783,580 persons, and another 9.5 percent of unrelated individuals, or 464,000 persons, are "lifted out" of the poverty population by this "adding on" of unreported income.

**Thus I will not bother to change the original Census figures, when, as in Table 2 which follows, I am simply comparing subgroups of the poor, or seeking to ascertain rates of reduction of poverty incidence.

TABLE 1E

CPS INCOME ESTIMATES, U.S., COMPARED WITH BEA AND HEW BENCHMARKS*

In the following table, 1970 CPS aggregate earnings and property income are compared with estimated benchmarks derived from 1969 BEA (Bureau of Economic Analysis) preliminary data. The benchmark estimates for social security; public assistance; and public pension, unemployment compensation, and veterans' payments were computed from 1969 HEW (Department of Health, Education, and Welfare) data.

Source Of Income	1973 CPS (1972 Income)			1970 CPS (1969 Income)			1969 CPS (1968 Income)			1968 CPS (1967 Income)		
	CPS (bil.$)	Est. bench-mark (bil.$)	Ratio of CPS to bench-mark	CPS (bil$)	Bench mark (bil.$)	Ratio of CPS to bench-mark	CPS (bil.$)	Bench-mark (bil.$)	Ratio of CPS to bench-mark	CPS (bil.$)	Bench-mark (bil.$)	Ratio of CPS to bench-mark
Total	773	858	0.901	603.3	676.7	0.891	541.6	622.3	0.870	489.3	568.5	0.860
Wages & salary	597	607.7	0.983	474.8	490.0	0.969	425.4	446.9	0.952	388.6	407.0	0.955
Self-employment	64.7	71.0	0.911	51.8	61.8	0.838	49.3	59.5	0.829	45.0	57.4	0.784
Nonfarm	54.1	54.6	0.991	43.4	48.9	0.887	41.6	47.7	0.872	37.0	46.2	0.800
Farm	10.6	16.4	0.648	8.4	12.9	0.651	7.7	11.8	0.654	8.0	11.2	0.713
Total other income	97.1	154.1	0.630	76.7	125.6	0.610	66.8	115.8	0.577	55.8	104.5	0.534
Social security	37.1	40.1	0.924	22.3	27.5	0.812	21.4	25.6	0.833	19.7	22.0	0.895
Property income	33.8	75.1	0.450	27.4	64.9	0.422	22.8	60.6	0.376	17.6	55.6	0.317
Public assistance	7.7	11.0	0.700	4.9	6.9	0.716	4.4	5.7	0.775	3.8	4.9	0.776
Public Pension, unemployment & veterans payments	18.5	27.9	0.660	11.1	16.0	0.693	9.4	14.1	0.665	7.9	13.0	0.602

*Source: Memo from Mitsuo Ono to Roger Herriot, Bureau of the Census, Washington, D.C., July 6, 1970, cited in Boland, op.cit., 21; USBC, Money Income in 1972, p.60, No. 90, December 1973, Table K.

"Absolute" Poverty, 1947-1972

Utilizing the Census Bureau's modified "Orshansky" poverty line and a similar "pre-Orshansky" definition of poverty used by the Council of Economic Advisors in 1962 (3,000 constant 1962 dollars for a family of four or 1,500 1962 dollars for unrelated individuals) to enable us to incorporate data from 1947 to 1959, we can examine some of the changes in the poverty population between 1947 and 1972. Disaggregating subgroups of families and unrelated individuals, several trends emerge. Blacks, female-headed families and unrelated individuals are increasingly overrepresented (see Tables 2, 3 and 4) in the poverty population, though the ratio of poor unrelated individuals to poor families has levelled off at about 3 and remained fairly constant over the past seven years. The ratio between the poverty incidence of farm and nonfarm families and between aged and nonaged consumer units, after climbing throughout the period from 1947 to 1963, reversed themselves and began approaching 1 (see Table 2). Richard Chase had predicted in 1966 that these ratios would continue to rise, and he was essentially correct in his estimate of the rises in the ratios of the female-headed and male-headed, white and non-white families. But he was far off the mark concerning the poverty trends of farm families and the elderly, even though he demonstrated elsewhere in his study that he was aware of the conditions that were to result in the relative decline in poverty among farm families and the elderly.

TABLE 2

PERCENTAGE INCIDENCE AND RATIOS OF PERCENTAGE INCIDENCE OF POVERTY AMONG SELECTED FAMILY GROUPS, 1947-1972*

FAMILY GROUP	POVERTY INCIDENCE				
	1947	1956	1963	CHASE'S PROJECTED 1970 RATIOS	1972
(1) WHITE	28.8	19.7	16.2		8.2
(2) NON-WHITE	66.8	51.1	43.6		31.2
(3) RATIO OF (2) TO (1)	2.3	2.6	2.7	3.1	3.8
(4) MALE-HEADED	29.9	19.8	15.6		7.4
(5) FEMALE-HEADED	51.5	49.2	47.6		36.9
(6) RATIO OF (5) TO (4)	1.7	2.5	3.1	4.6	4.9
(7) HEAD UNDER 65	28.8	18.2	14.5		11.1**
(8) HEAD OVER 65	57.2	52.0	45.6		18.6**
(9) RATIO OF (8) TO (7)	2.0	2.8	3.1	4.9	1.7
(10) NONFARM	26.9	23.9	17.4		10.2
(11) FARM	55.5	55.3	44.0		14.1
(12) RATIO OF (11) TO (10)	2.1	2.3	2.5	3.3	1.4

*Table derived from Richard X. Chase, "Trends in Poverty Incidence and its Rate of Reduction for Various Demographic Groups: 1947-1963", unpub. Ph.D. diss., U. of Maryland, 1966, esp. pp. 55 and 58; and Tables L and 4 of C.P. Reports, Characteristics of the Low-Income Pop., 1972 (Series P-60, No. 91, (Dec. 1973).

**1963 and 1972 data bases are not entirely comparable.

TABLE 3*

UNRELATED INDIVIDUALS AS A PERCENTAGE OF ALL CONSUMER UNITS AND OF POOR CONSUMER UNITS** FOR SELECTED YEARS

	1947	1950	1953	1956	1960	1963	1968	1972
UNRELATED INDIVIDUALS:								
As a Percentage of All Consumer Units**	18	19	19	18	19	19	20.1	20.7
As a Percentage of Poor Consumer Units**	26	28	30	32	34	36	48.2	49

*Derived from Chase, op. cit., 31; and Table 1, Series P-60, No. 91.

**Consumer units are the sum of the number of families and the number of unrelated individuals.

TABLE 4*

PERCENTAGE OF UNRELATED INDIVIDUALS POOR IN SELECTED YEARS, COMPARED TO NO. OF FAMILIES POOR FOR THE SAME YEARS

	1959	1963	1966	1968	1970	1972
(1) Unrelated Individuals	46.1	44.2	38.6	34.0	32.9	29
(2) Families	20.8	17.9	13.1	11.3	10.9	10.3
Ratio of (1) to (2)	2.2	2.5	2.9	3.0	3.0	2.9

*Derived from C.P. Reports, Characteristics of the Low-Income Population: 1972, Series P-60, No. 88, June 1973.

Farms and Poverty

Chase assumed that the exodus from the farms to the cities was rapidly declining, and he thus reasoned that as fewer poor families (the prime candidates for such moves) left farms, the ratio of poverty incidence among farm families compared to that of non-farm families would increase.* In 1947 there were 3.5 million farm families reported to be poor, in 1950 3.3 million, in 1953, 3.2 million, in 1956 2.7 million, in 1959 2.0 million, in 1961 1.6 million, and in 1963 1.4 million. Rapid decline in the number of poor farms occurred in the period from 1955 to 1960; agricultural technology eliminated many Southern farms. But the 1960s were to see still more poor farm families leave the farm. Some 56 percent of all Southern black farmers, and some 19 percent of all white farmers in 1964 were sharecroppers or tenant farmers.** Machines continued to throw them into cities.*** By 1969 only 408

---

*Chase, *op. cit.*, 99-100. Chase was not alone in these errors (which, after all, were due simply to the fact that he had positted a fixed rate of economic growth and had held all demographic factors constant). The 1964 C.E.A. and Robert J. Lampman ("Poverty Change and Poverty Reduction, 1947-1975", in Leo Fishman, ed., *Poverty Amid Affluence*, New Haven, 1966) also assumed similar conditions, and produced estimates which vastly overestimated the degree of farm poverty and poverty among the elderly for the 1970s.

**Marshall, Ray and Godwin, Lamond, *Crops and Rural Poverty in the South* (1971).

***And not necessarily Northern cities. The percentage of poor persons in Central cities increased steadily from 26.9 percent of all the poor in 1959 to 37.5 percent in 1972; the percentage of poor in the South declined from 49.4 percent in 1959 to 46.7 percent in 1967 and 44.7 percent in 1972, but the percentage in the Northeast and North Central remained constant at about 39 percent of the poverty population throughout the period. Obviously, while many dispossessed poor rural Southerners moved to Northern and Western cities, many moved to Southern and Southwestern cities.

thousand, and by 1972 only 290 thousand poor farm families remained in the U.S.* Poverty among farm families had declined in the past generation _not_ because poor farm families were becoming more successful (though some undoubtedly were), but largely because they were unable to continue _as farm families_. (Farm prosperity in the 1970s may "trickle down" to the poorer family farmers, but there is no particular reason to _expect_ that it will. Breakthroughs in hybrids, machinery, fertilizers, insecticides, etc., are used by those with the capital, skills, and education to take advantage of them.)**

The same may be said of poor farm unrelated individuals (farm laborers or "hired hands"). The incidence of poverty among such persons, whether black or white, is declining at a more rapid rate than it is among non-farm unrelated individuals, largely because the poor farm laborer is moving to jobs in industry or the service sector. None the less, approximately 1,400,000 (950,000) poor Americans in 1972 lived on farms, and in 1971 Marshall and Godwin noted that:***

> Technological changes in harvesting and curing tobacco which have already been tested will greatly reduce labor requirements in the future and will make it more difficult for small farmers to compete.

Over 200,000 (140,000) poor Americans live on tobacco farms. Antipoverty remedial training programs geared to relocating poor farmers leaving the land will still be of value for the next decade.

Age and Poverty

Poor farmers can always elect to become service station attendants, laborers, or assembly line workers, and some will thereby escape from poverty. Aged or disabled persons cannot chose to become younger or more able.

---

*Table 18, C.P. Reports, Series P-60, No. 91, Dec. 1973, and Table 2, C.P. Reports, Series P-60, No. 76, Dec. 1970

**See, for example, National Farm Institute, _What's Ahead for the Farm Family?_ (Des Moines, 1966)

***Godwin and Marshall, _op. cit_, 8.

The five-year Michigan income dynamics study found that the aged poor were disproportionately uneducated (over 90 percent had less than an 8th-grade education) which implies that they had not acquired much economic status (capital or pensions) before retiring. They were also disproportionately rural, over 75 and unemployed. The Survey Research Center found that those persistently poor (poor all five years) were disproportionately elderly (Figure 5). Aged, disabled, and female-headed families are not lifted from poverty by economic growth alone. They constitute an economic "backwash."* During periods of substantial economic growth (1947-1956 and 1964-1969) the annual rate of reduction in the percentage incidence of poverty for aged persons was smaller (-1.3 percent per year for 1947-1956, -1.4 percent for 1964-1969) than it was in periods of slower growth (-2.3 percent per year in the period 1957-1963, -2.2 percent per year in the period from 1970 to 1973).

The two key reasons for the reduction in the incidence of poverty among the elderly in America are: one (for the period 1957-1963), the fact that an increasing number of elderly Americans were for the first time receiving Social Security benefits (see Table 6), and two, the substantial increases in Social Security benefits in 1965, 1970, 1971, and 1972.** Since 1972 there have been two additional changes that

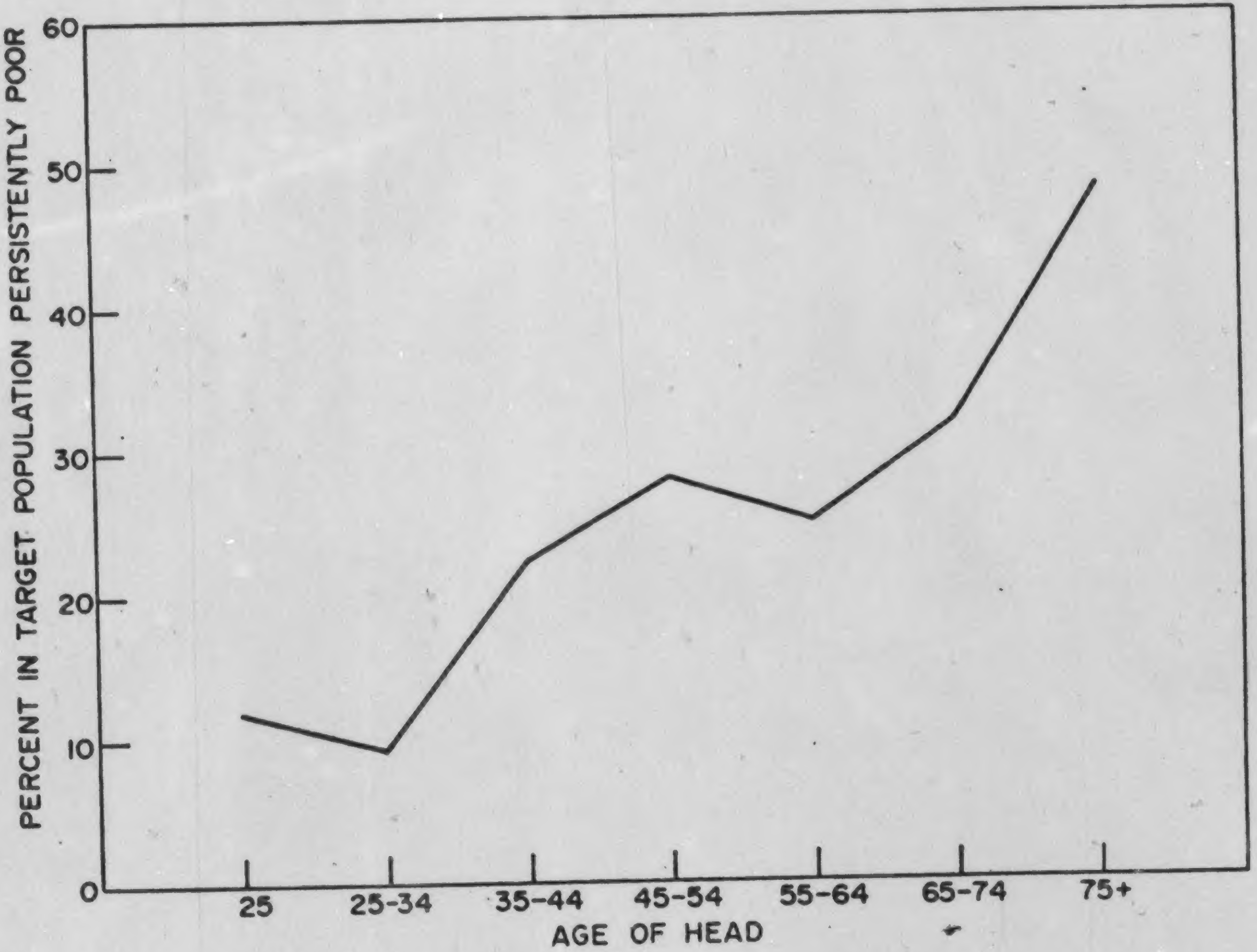
---

*See W.J. Locke Anderson, "Trickling Down: The Relationship between Economic Growth and the Extent of Poverty among American Families", Quarterly Journal of Economics (Nov. 1964), 511-524; Chase, op.cit.; and Chase, R.X. and Laber, G., "Economic Growth as an Anti-Poverty Tool", Social Science Quarterly (Dec. 1969), 204-208, for development of this argument.

**Ball, Robert, "Social Security Amendments of 1972", Social Security Bulletin (March 1973).

FIGURE 5*

CHANCE OF BEING PERSISTENTLY POOR, BY AGE OF FAMILY HEAD



*Source: Five Thousand American Families (Michigan Survey Research Center, Ann Arbor 1973), I, 29.

TABLE 6*

SOCIAL SECURITY COVERAGE AND PAYMENTS FOR SELECTED YEARS

YEAR	PERSONS RECEIVING YEARLY BENEFITS (MILLIONS)	TOTAL ANNUAL PAYMENTS (MILLIONSOF 1971 DOLLARS)	AVERAGE MONTHLY PAYMENT PER RECIP'NT (IN 1971 DOLLARS)	% OF AGED RECEIVING OASDHI BENEFITS
1945	1.3	591	$ 73.00	Not. Avail.
1950	3.5	1,423	$ 72.10	21
1955	8.0	5,157	$ 94.75	42
1960	14.8	10,755	$102.05	64
1965	20.0	16,787	$108.30	76
1971	27.3	34,233	$132.15	85

*Derived from Chase, op.cit., 119, and Social Security Bulletin Annual Stat. Supp., 1971, 34,37,40

should reduce poverty among the aged: the increase in a widow's Social Security benefits to 100 percent of her deceased husband's benefits, which should reduce the tendency of many widows to fall below the poverty line, and the new level of Supplementary Security Income (old Old Age Assistance). With the "costing out" of food stamps for the elderly, the problem (for some elderly) of "take-up" has also been eliminated. Medicare has not proven to be the panacea some imagined it might be, but it reaches many elderly poor, as, to one degree or another, do public housing, meals-on-wheels, homekeeping services, and other such in-kind transfer programs. If a "generous" (low or no "deductible") national health bill which included protection for catastrophic illness were to become law* and if the new law

---

*See Table 6A (following page) for evidence of inadequate health insurance for the low and middle income groups.(Most of those officially in poverty are covered by Medicaid, of course; it is the near-poor and lower-middle class who would benefit from a compulsory health insurance act.

TABLE 6A*

PERCENTAGE DISTRIBUTION OF ALL FULL-TIME WAGE AND SALARY WORKERS AND OF FULL-TIME WORKERS IN PRIVATE INDUSTRY AND GOVERNMENT, BY GROUP HEALTH INSURANCE STATUS AND ANNUAL WAGE OR SALARY INCOME IN 1971, APRIL 1972

WAGE OR SALARY INCOME IN 1971	TOTAL NUMBER IN THOUSANDS	NOT COVERED (PERCENTAGE)
Full-time Wage and Salary Workers	Total	
Total[2]	59,609	25
1-5 thou.	9,035	40
5-6	4,165	24
6-7	4,146	19
7-8	4,473	15
8-9	3,698	12
9-10	3,451	9
10-11	3,280	8
11-12	2,250	8
12-13	1,972	8
13-14	1,304	6
14-15	1,000	6
15-20	2,814	7
20-25	779	9
Over 25	864	8
	Men	
Total[2]	39,425	19
1-5	3,183	38
5-6	1,933	24
6-7	2,384	18
7-8	3,079	13
8-9	2,825	9
9-10	2,917	8
10-11	2,874	7
11-12	2,001	8
12-13	1,802	7
13-14	1,226	6
14-15	924	6
15-20	2,719	7
20-25	753	7
Over 25	844	8
	Women	
Total	20,184	36
1-5	5,852	41
5-6	2,232	23
6-7	1,763	22
7-8	1,393	18
8-9	873	21
9-10	533	14
Over 10	1,119	16

*Source: Social Security Bulletin, April, 1974.

pertaining to the vesting and funding of private pensions has the expected results, and we were to avoid a serious recession, then we should see further decline in the percentage of elderly poor. But we will not eliminate poverty among the elderly entirely until the states (many of them Southern) that presently do not supplement S.S.I. with sufficient payments to lift the elderly poor to the poverty line change their payment schedules. Depending on the nature of future legislation,we might see anywhere from 9 to 12 percent (6 to 9 percent) of the aged in poverty in 1975, and anywhere from 2 to 8 percent (1 to 5 percent) poor in 1980.

Race and Poverty

A glance back at Table 2 reminds us that one of the population groups that has over the past generation been experiencing less reductions in poverty than the population as a whole (and whites in particular) is non-whites.* Table 7 displays that fact in a different fashion.

---

*Tables 2, 7, and 8 offer data on non-whites, or "Negroes and other races", as opposed to blacks alone, since data separating blacks out from other non-white racial groups was unavailable in earlier census years. "Non-white" includes American Indians (2 percent of all "non-white"), who are 1 1/2 times as likely to be poor than blacks, and Japanese- and Chinese-Americans (3 percent of all "non-white") who are only 1/3rd as likely to be poor as blacks. When blacks are separated out (as they have been since 1966), their poverty incidence averages about 1.5 percent per year more than that of "non-white". "White", similarly, contains a number (2.2 percent of all "white") of Puerto Ricans and Mexican-Americans whose poverty incidence, like that of blacks, is increasing in proportion to that of all other "white" (from 34 percent/18.3 percent or 1.9 in 1959 to 28.3 percent/8.1 percent or 3.5 in 1972). When non-Puerto Rican or Mexican-American whites are separated out, the incidence of poverty must be reduced from .3 percent in 1959 increasing to .9 percent in 1972 from the figure for all whites in any given year.

TABLE 7*

POOR NONWHITE UNITS AS A PERCENTAGE OF ALL POOR UNITS, FAMILIES AND UNRELATED INDIVIDUALS: SELECTED YEARS

	POOR NONWHITE CONSUMER UNITS						
	1947	1952	1956	1959	1963	1968	1972
Poor Family Units							
Number (millions)	11.9	11.2	9.8	9.8	9.0	5.0	5.1
Percentage Nonwhite	17.6	19.6	20.4	21.4	23.3	28.4	32.2
Poor Unrelated Individuals							
Number (millions)	4.3	NA	4.8	5.0	5.0	4.7	4.9
Percentage Nonwhite	14.5	NA	16.7	17.8	17.2	18.0	19.4

*Derived from Chase, *op. cit.*, 157, and C.P. Report, Series P-60, No. 91 Dec. 1973.

NA= Not Available

Indeed, the ratio of the incidence of "near-poverty" (between 100 percent and 125 percent of the Census Bureau's poverty line) among non-whites and whites is also increasing (if unevenly) over time (1.23 in 1959, 1.43 in 1964, 2.36 in 1968, 1.95 in 1972). (See Table 8)

Barry Bressler and Lloyd Bacon have both noted that poor black families are likely to have larger families than poor whites (whether one is speaking of relative poverty standards, as does Bressler, or an absolute standard, as does Bacon).* (See Tables 9 and 10, Bressler's evidence). But we should not assume from this that the ratio of the poverty incidence of blacks and whites declines by controlling for family size. After all, the Census Bureau has been controlling for family size (their variation of the poverty line for family size serves that purpose) for almost a decade now. When we do control for family size among the absolute poor (Table 11), we find that black families (and female-headed families, of which more in a moment) are disproportionately poor for any given family size.

Why are blacks so disproportionately poor? One reason is that many came from rural backgrounds where they acquired few transferable skills, little capital and low levels of education. Over 82 percent of black farm males (and 46.4 percent of white farm males) in 1960 had less than eight years of education. Of those wage earners surveyed in the Michigan income dynamics study, "those who grew up in a rural area earn an average of $.55 an hour less than those from large cities, when controlling for the fact that they tend to have less education and work in lower paying occupations.."**

---

*Bressler, op. cit, 35; Bacon, "Family Size, Composition and Poverty in the U.S: Research Abstract", Public Data Use, II (Apr. 1974), 37

**Five Thousand American Families, I, 129

TABLE 8*

THE "NEAR-POOR": SELECTED CHARACTERISTICS OF THE POPULATION BETWEEN 100% AND 125% OF THE CENSUS BUREAU'S POVERTY LINE (15.5 MILLION PERSONS IN 1959, 10.1 MILLION IN 1972)

YEAR	% OF WHITE PERSONS WHO ARE "NEAR POOR"	% OF NON-WHITE PERSONS WHO ARE "NEAR POOR"	% IN WHITE MALE-HEADED FAMILIES	% IN NON-WHITE MALE-HEADED FAMILIES	% IN WHITE FEMALE-HEADED FAMILIES	% IN NON-WHITE FEMALE-HEADED FAMILIES	% OF WHITE UNRELATED INDIVIDUALS	% OF NON-WHITE UNRELATED INDIVIDUALS
1959	8.6	10.6	8.8	12.4	10.7	5.7	6.7	6.6
1964	6.9	9.9	6.8	11.3	12.5	6.5	6.6	4.0
1968	4.7	11.1	4.1	10.1	7.6	10.3	8.3	8.7
1972	4.4	8.6	3.5	8.1	8.7	9.7	9.5	8.5

*Derived from Tables 1 and 2 of C.P. Report, Series P-60, No. 91, Dec. 1973. Not adjusted for in-kind benefits or unreported income.

TABLE 9

PROPORTION OF NONWHITE FAMILIES IN LOWEST AND HIGHEST INCOME QUINTILES: ADJUSTED AND UNADJUSTED FOR FAMILY SIZE, 1967

PROPORTION IN	ADJUSTED (PERCENTAGE)	UNADJUSTED (PERCENTAGE)	DEVIATION AS A PERCENTAGE
Lowest Quintile	46.6	40.5	15.1
Highest Quintile	7.8	9.0	-13.3

TABLE 10

PROPORTION OF NONWHITE FAMILIES WITH LESS THAN HALF OF MEDIAN INCOME AND COEFFICIENT OF NONWHITE RELATIVE POVERTY: ADJUSTED AND UNADJUSTED FOR FAMILY SIZE, 1967

	ADJUSTED (PERCENTAGE)	UNADJUSTED (PERCENTAGE)	DEVIATION AS A PERCENTAGE
Proportion Below 50 Percent of Median Income	43.0	38.5	11.7
Coefficient of Nonwhite Relative Poverty	774	720	7.5

TABLE 11*

PERCENT POOR BY FAMILY SIZE FOR SELECTED CHARACTERISTICS, 1969, 1972

(in percent)

YEAR	ALL FAMILIES				BLACK FAMILIES				FEMALE-HEADED FAMILIES			
	4 PERS	5 PERS	6PERS	7 PERS OR MORE	4 PERS	5 PERS	6 PERS	7 PERS OR MORE	4 PERS	5 PERS	6 PERS	7 PERS OR MORE
1969	6.9	8.0	11.3	21.7	24.6	28.1	35.5	43.3	39.1	49.7	61.1	66.0
1972	7.5	8.6	14.3	22.3	26.8	31.1	40.3	46.3	42.7	46.6	60.2	66.8

*Not adjusted for in-kind benefits or unreported income.

It is surely the case that many farmers who have moved to 8-5 jobs in the service or industrial sectors find it somewhat difficult to adjust to the new on-the-job-every-day routine, given the task-oriented nature of farm work. However, Stanley Masters has found that those Southern black males who migrated to Norther cities before 1955 were earning slightly more than Northern-reared black males by 1960, and this pattern is true only of blacks.* It is not the case that black migrants display traits that white migrants do not; it is simply the case that blacks already in the North are not on the same level as whites there. To quote from the Michigan income dynamics study again:**

> Of all the background characteristics which determine who has high wages and who has low wages, race is the most significant and has the largest effect [See Table (12)].... Controlling on background, education, occupation, industry, as well as local area conditions (such as county unemployment rate), we estimate that a black man on the average earns $.51 an hour less than a white man in similar circumstances (about $1,100 per year difference).

The Michigan Survey Research Center staff isolated the families who remained poor for all of the first five years of this ongoing study, and then, after controlling for every independent variable they could lay their hands on (test scores, age, sex of head, city size, achievement motivation scores, distance to cities, county unemployment rates, etc.), they displayed graphically the correlation between education, and test scores, on the one hand, and the percentage of those poor at

---

*Masters in The Journal of Human Resources (Fall, 1972), 419. But see Five Thousand American Families, I, 129

**loc. cit.

TABLE 12*

REGRESSION COEFFICIENTS ON AVERAGE WAGE RATES FOR BACKGROUND, MOTIVATION AND TEST SCORES--MALE HEADS OF HOUSEHOLDS

	Alone		Adding Education		Adding Occupation		Adding Demand	
	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio	Coefficient	t-ratio
Black	-.84	(4.4)	-.54	(3.1)	-.41	(2.3)	-.51	(2.9)
Grew up on Farm	-.50	(3.9)	-.53	(4.4)	-.40	(3.4)	-.28	(2.4)
Grew up in City	.74	(6.2)	.50	(4.5)	.49	(4.5)	.27	(2.5)
Father's Occupation	.07	(2.6)	.01	(0.5)	-.005	(0.2)	-.005	(0.2)
Father's Education	.18	(5.2)	.05	(1.6)	.06	(1.7)	.07	(2.1)
Age	.27	(6.7)	.31	(8.2)	.30	(8.1)	.22	(6.1)
Age^2	-.003	(6.6)	-.003	(7.9)	-.003	(7.8)	-.002	(5.8)
Whether under 30	-.24	(1.0)	.20	(0.9)	.03	(0.1)	.09	(0.4)
Veteran	.20	(1.9)	.03	(0.3)	-.12	(1.2)	-.11	(1.2)
Motivation	.09	(4.4)	.03	(1.8)	.03	(1.8)	.01	(0.7)
High Test Score	.92	(7.3)	.26	(2.6)	.31	(2.6)	.38	(3.5)
Low Test Score	-.58	(4.4)	-.29	(2.3)	-.21	(1.7)	-.24	(2.0)

$R^2 = .22$

*Five Thousand American Families, I, 130.

least one of the five years ("target population") who were poor all five years ("persistently poor"), on the other. Then they sorted out for blacks only. See Figures 13 and 14 for the results. Clearly, for the entire "target population" six grades is sufficient to reduce one's chance of being "persistently poor" to about one in five (which is nearly a description of the "target population"). For blacks, "it takes at least some college education to do this."* The same may be said of the "test scores" (a kind of IQ-achievement measure). Only the very brightest blacks avoid poverty (see Figure 14). What we see here is surely due in large measure to "racism" and discrimination.

What of the future for poor blacks? It is not altogether without hope. The Michigan study found "evidence that wage rates of young blacks have been rising in recent years faster than wage rates of whites."** This, coupled with recent changes in the minimum wage, may accelerate the rate of poverty reduction among poor black families headed by a working male*** and among young and able black male unrelated individuals in poverty. But these two groups account for only about 22 percent of the black poor.**** The rest live in consumer units

---

*Five Thousand American Families, I, 30-33

**Ibid., 129

***About 30 percent of poor male-headed families in 1969 and 1972 had two or more earners, and about 70 percent had at least one earner (see Table 15).

****Calculated from Tables 21, 24, and 30 of C.P. Report, Series P-60, No. 91, Dec. 1973. This is not to say that this 22 percent or 1.7 million persons (1 million persons) is insignificant. Indeed, another 6,300,000 white persons (3.9 million white persons) live in consumer units headed by able males, many of whom work. Altogether in 1972 about 32 percent of all the poor lived in such consumer units. Economic growth, higher minimum wages, and job development programs can surely be of help to them. But it must be noted that they are a steadily declining percentage of the poverty population. (32 percent of the poor worked in 1959; 20 percent in 1972.)

FIGURE 13

CHANCE OF BEING PERSISTENTLY POOR, BY EDUCATION OF HEAD, ADJUSTED BY REGRESSION

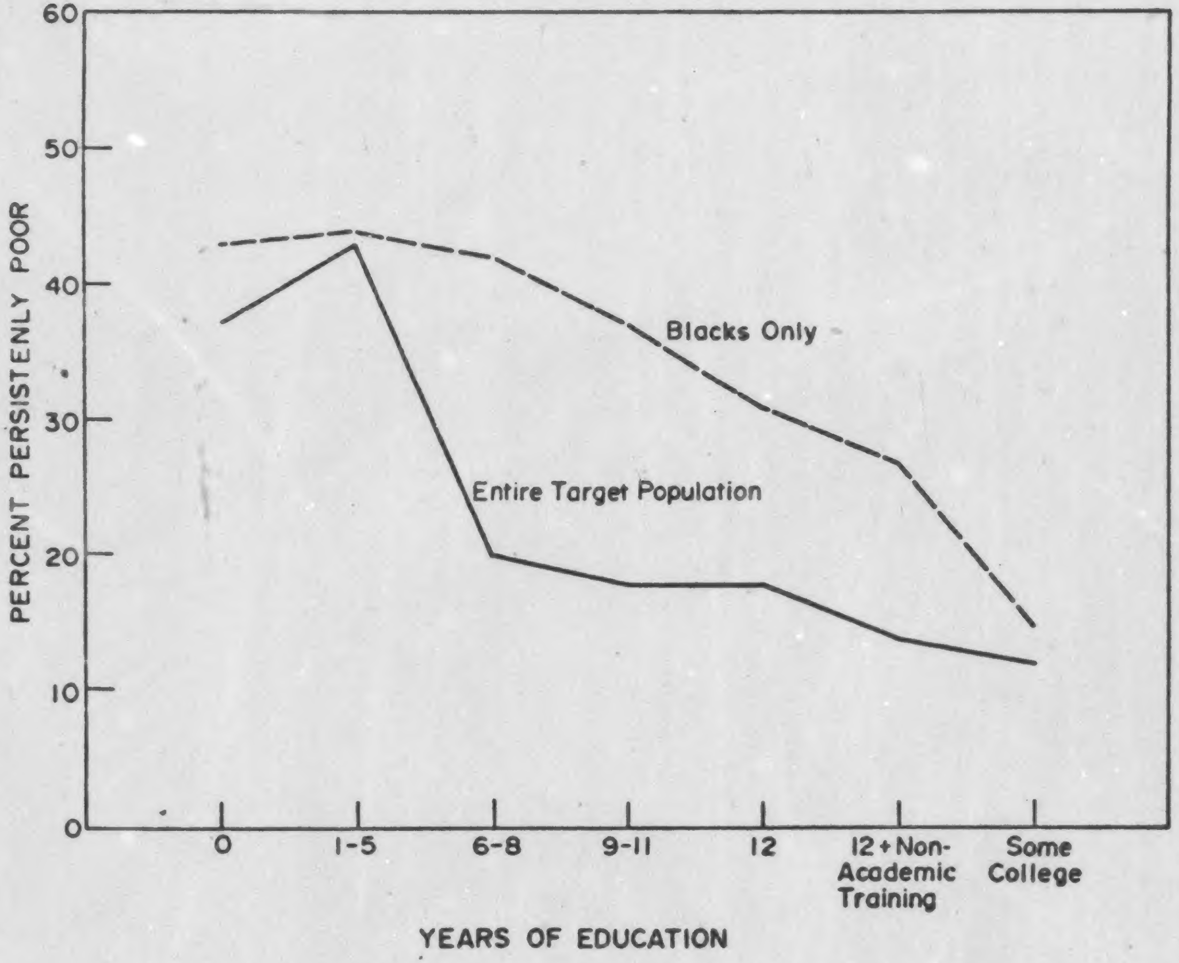


FIGURE 14

CHANCE OF BEING PERSISTENTLY POOR, BY TEST SCORE OF HEAD OF FAMILY, ADJUSTED BY REGRESSION

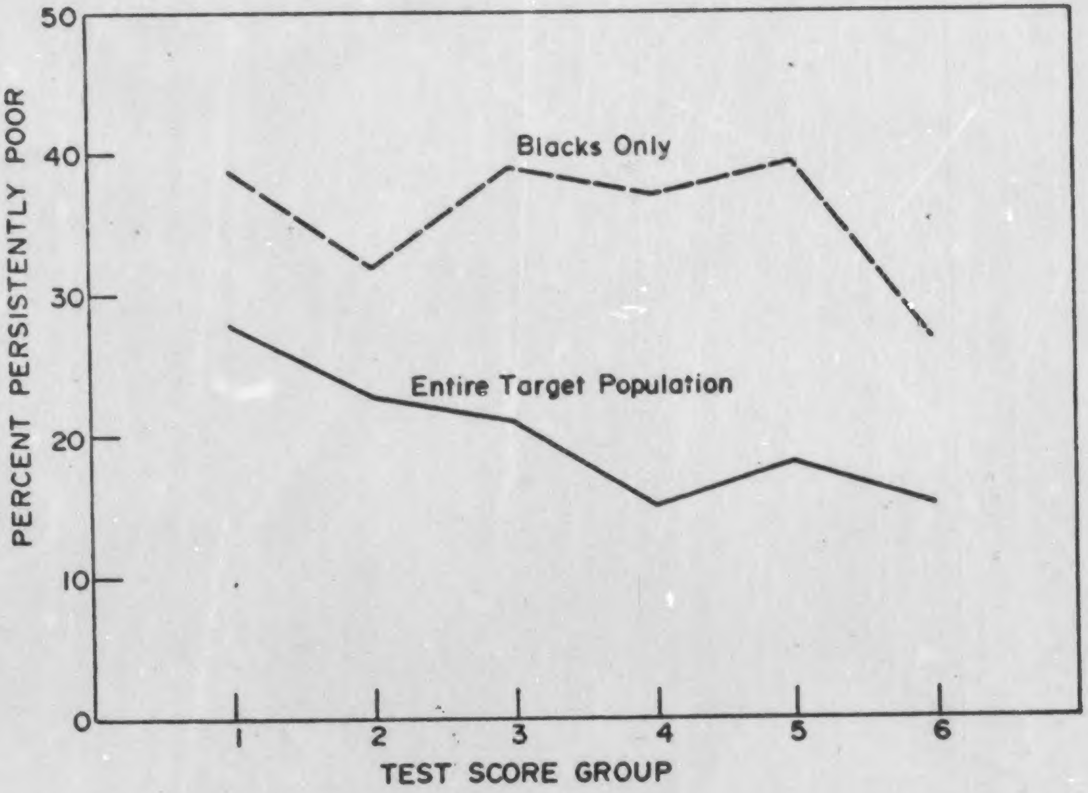


TABLE 15

NO. OF EARNERS IN DIFFERENT TYPES OF IMPOVERISHED CONSUMER UNITS, 1969 & 1972

	1969		1972	
	% IN CATEGORY	POVERTY INCIDENCE	% IN CATEGORY	POVERTY INCIDENCE
In White Female-Headed Families				
No Earners....	48.6	60.2	49.0	53.4
1 Earner......	48.5	23.8	40.9	21.7
Over 1 Earn...	2.9	7.4	10.1	8.1
In Black Female-Headed Families				
No Earners....	38.2	86.0	49.0	86.3
1 Earner......	41.9	47.7	38.8	45.0
Over 1 Earn...	19.1	35.7	12.2	27.5
In White Male-Headed Families				
No Earners....	32.9	27.9	29.8	19.7
1 Earner......	45.6	7.2	45.2	6.5
Over 1 Earn...	21.5	2.3	25.0 (575 thou)	2.4
In Black Male-Headed Families				
No Earners....	19.8	65.9	20.9	48.7
1 Earner......	21.1	25.3	43.0	23.4
Over 1 Earn...	42.3	11.1	35.9 (200 thou)	9.2

headed either by aged or disabled males or by females. Hence, while continued inroads against racial discrimination, and on behalf of job location and job retention, are highly desireable, poverty, especially poverty among blacks, will not disappear unless continued inroads are also made against sex discrimination as well. Which brings us to our next subject.

Female-headed Families and Poverty

A glance back at Table 2 reminds us that the rate of reduction of poverty incidence among female-headed families is slower than that of male-headed families.* Indeed, from 1947 to 1972 the absolute number of poor female-headed families has grown by about 500,000. The Michigan income dynamics study revealed that those in the sample who were persistently poor (all five years) were disproportionately members of female-headed families.** Table 16 displays the rise of poor female-headed consumer units (female-headed families and widows) as a percentage of all poor units.

---

*This pattern reversed itself briefly in the mid and the late 1960s and early 1970s, as AFDC payments became more available and substantial (See Table 2 and Michigan's Five Thousand American Families, I, 59), but that process of change has now spent itself, and I fully expect that the rate of reduction for female-headed families will again be lower than that for male-headed families beginning in 1973, especially because of the rise in AFDC-UP and the Supreme Court's "stepfather" ruling.

**Five Thousand American Families, I, 30

TABLE 16*

POOR FEMALE HEADED CONSUMER UNITS AS A PERCENTAGE OF ALL POOR UNITS, FAMILIES AND UNRELATED INDIVIDUALS, 1947, 1956, 1963, 1972

TYPE OF CONSUMER UNIT	1947	1956	1963	1972
POOR FAMILY UNITS				
Percentage (total)	100.0%	100.0%	100.0%	100.0%
Percentage with Female Head	16.8	21.4	25.6	42.5
POOR UNRELATED INDIVIDUALS				
Percentage (total)	100.0	100.0	100.0	100.0
Percentage with Female Head	60.3	64.6	70.0	71.1

*Derived from Chase, op. cit., 199, and C.P. Report, Series P-60, No. 91, Dec. 1973

Why are female-headed families so disproportionately poor? Firstly, because the salary levels of female workers are low in comparison to male workers (even after controlling for age, education, time on the job, and level of employment). The Michigan income dynamics study calculated that, while black males receive $.51 per hour less than comparable white males, females earned $1.00 per hour less than males with comparable demographic characteristics.** Secondly, only about 30 percent of female-headed consumer units work full-time, year-round, whereas over 55 percent of male-headed consumer units work year-round, full-time (See Table 17).

**Chase, op.cit., 209; Brecker, Charles, Upgrading Blue Collar Service Workers (1972), 18,51; Five Thousand American Families, I, 166.

TABLE 17*

PERCENTAGE OF CONSUMER UNITS WITH HEAD EMPLOYED YEAR-ROUND AND FULL TIME:[a] MALE HEADS COMPARED TO FEMALE HEADS, 1958-1972[b]

TYPE OF CONSUMER UNIT	1958	1959	1960	1961	1962	1963	1969	1972
MALE HEADS								
Families	65.8	66.8	67.3	66.0	67.5	69.1	67.3	68.5
Unrelated Individuals	44.8	41.5	42.9	42.1	41.7	41.4	44.4	43.2
FEMALE HEADS								
Families	27.3	28.3	28.3	27.3	27.7	26.0	31.0	31.3
Unrelated Individuals	33.3	28.8	28.8	28.8	27.6	28.2	29.5	28.0

[a] Year-round, full-time defined as 35 hours or more per week and 50 weeks or more per year.

[b] Data not available for years before 1958.

* Source: Current Population Reports, Consumer Income, Series P-60

Thirdly, there has been a substantial rise in the percentage of black female-headed families (from 17.6 percent of all black families in 1960 to over 30 percent in 1972), and thus an absolute increase in the number of female-headed families (white female-headed families having grown at a much slower rate from 8.5 percent of all white families in 1960 to 9.4 percent in 1971) who are highly likely to be poor. But this may mislead us, for if we disaggregate poor female-headed families by race, as has Heather Ross of the Urban Institute,** we find that the

---

** Ross, "Poverty: Women and Children Last", Working Paper, Dec. 5, 1973,2.

rates of increase in the percentage of poor black *and white* families with children who were female-headed have both been high (from 1/4 of all poor white families with children being female-headed in 1960 to 43 percent in 1972, and from 1/3rd of poor non-white families with children being female-headed in 1960 to 70 percent in 1972). In any event, the relative increase (from 10 percent of all families in 1960 to 12 percent in 1972) in female-headedness surely helps to explain the *absolute* increase in poor female-headed families, when coupled with the fact that most of the increase is among blacks who experience greater difficulties in the job market.

A final cause of poverty among female-headed families is the payment levels of AFDC ("welfare"), upon which many female-headed families rely for all or most of their income: In many states (particularly Southern states) AFDC does not lift the recipients above the poverty level. The Michigan income dynamics study calculated that those families within the sample who were on welfare and had no other source of income were on average provided with only 74 percent of their needs, and that larger families were even less well off.*

Ironically, the increased availability of AFDC in the 1960s when eligibility rules were altered and benefit levels raised, may be inducing some low-earning women who head families to drop out of the work force

---

***Five Thousand American Families*, I, 256-59

This does not include in-kind benefits, but adding those in lifts only a portion of AFDC families from poverty, and, in any event, we are trying to explain the Census Bureau's poverty figures for the moment, and these do not add in in-kind benefits.

Actually, only about half of poor families are receiving welfare, partly because of the reluctance of some poor families to "go on the dole", but largely because of the reluctance of many states to permit AFDC payments to male-headed families and the reluctance of some state and local welfare administrators actually to grant benefits.

and opt for AFDC. A glance back at Table 15 shows that most women heading families are earners (albeit chiefly part-time earners), and C.E.A. data show that mothers in the AFDC program have increased their full-time employment (5.6 percent employed full-time in 1961; 7.0 percent in 1967; 8.7 percent in 1970; 9.9 percent in 1973).* But this last fact is largely the result of government efforts to _get_ AFDC heads of families to be self-supporting (WIN). Moreover, another glance back at Table 15 shows that the percentage of women heading poor families who earn nothing is growing steadily.** The Michigan income dynamics study found that "the probability of (eligible families) going on welfare (in any given county) declines as the size of average (AFDC) benefit (per recipient in any given county) increases", but this they attribute to better job opportunities in high AFDC countries.*** If one controls for this and other variables, as has Marjorie Honig, one finds that, holding other factors constant, in 1960 a 10 percent-higher area AFDC payment will induce a 3 to 4 percent higher rate of female-headed families (which families she calls "welfare-induced"), and again in 1960 a high male wage rate relative to AFDC payments was inversely correlated with higher rates of female headship.

---

*C.E.A. Report (1974), 172

**Credit to Heather Ross, the first, to my knowledge, to point this out. (Ross, _loc. cit._).

***_Five Thousand American Families_, I, 265.

However, given the fact that the average AFDC payment rose 72 percent between 1960 and 1970 while the average wage in manufacturing rose only 49 percent in the same years (less in the secondary labor market), one would have expected that Ms. Honig's findings would be more pronounced in 1970. Though they were still statistically significant, and still pointed in the same directions, they were weaker than in 1960.* This fact may be explained by the growth of AFDC-UP, which lessens the need for family dissolution. But other of Ms. Hornig's findings do offer support for Heather Ross's view that women heading families are leaving the low-income labor market to go on welfare.

One final note on AFDC: Some analysts have spoken of the "tax" on earnings inherent in all income-tested transfer programs. Some states have altered their eligibility rules to reduce the work disincentive effect of this "tax" (which has had the unanticipated consequence of increasing the pool of those eligible to receive at least some benefits), while other states have not. In any event, the Michigan income dynamics study group found evidence that welfare recipients perceive, indeed exaggerate, this "tax" rate or work disincentive quality of AFDC:**

> In 1972 we asked those who were receiving welfare the following two questions.
>
> > "How much money can a person earn before they start to cut his welfare?"
> >
> > "If a person earns $10 more than that amount, how much is his welfare cut?"
>
> Not one person responded to the second question with an amount less than $10, even though many were on AFDC where, by law the marginal rate is 67 percent. Of those giving an answer, 70 percent said that welfare would be cut by the full $10 and the rest said that all the welfare would be cut off. It is also

---

*Honig in Joint Econ. Committee's Fiscal Policy Subcommittee's Studies in Public Welfare, Paper 12, Pt-I, Nov. 1973, pp. 37-53.

** Five Thousand American Families, I, 257.

revealing that half of the respondents answered that they didn't know how much welfare would be cut, indicating that there is a great deal of ignorance and uncertainty as to exactly what the rules are.

This suggests that the conditions designed to reduce the work disincentive effect of the take-back "tax" should be more carefully explained to recipients if the desired consequence is to be expected to take place.

What is the future of poverty among female-headed families? Not very promising although there is some hope. (1) Many female-headed families escape from poverty when the mothers marry or (remarry)*, but the remarriage rate of widowed, separated and divorced mothers has been higher than the ordinary for some time;** not much more relief can be expected from this quarter. (2) The E.E.O.C. and various state human relations or civil rights commissions may be able to reduce inequities in wage rates and to open some higher-paying or high security positions for women, which would help. But one E.E.O.C. program, "Affirmative Action", may have a limited life. (3) "Take-up" among families eligible for welfare may increase, but according to Barbara Boland there is not much slack left; most (91 percent) of those female-headed families eligible for welfare in 1970 actually received benefits at one time or another that year.*** Many white, Southern and small town poor female-headed families still do not "take up" welfare benefits, but we see no reason to expect that to change. (4) States with low AFDC benefits may increase them, but given the present state of the economy, it may be unrealistic to expect much in the way of increases in welfare payments.

---

*Five Thousand American Families, II, 339

**Noted by C. Jencks in Working Papers (Winter 1974), 59.

***Boland, in Studies in Public Welfare, Papers 12, Pt. I, pp.139-179

All of which leads me to conclude that the rate of reduction in the poverty incidence of female-headed families will probably be quite modest for the next decade.

The Future of Poverty in America

In summary, poverty has been declining, both relatively and absolutely, in America in the past quarter century, albeit at different rates for different subgroups of the poor, and for a number of reasons, some of them different for different subgroups. Economic growth has clearly helped many escape from poverty, and continued growth will probably be necessary for any substantial, rapid future decline in poverty especially inasmuch as anti-poverty programs are more likely to see the light of day in periods of growth. But moderate economic growth is of only indirect (albeit consequential) aid to many subgroups. For many, poverty, or low income, is simply "in the cards". The Michigan income dynamics study indicates that the "good" attitudes and behavior patterns of the poor are not correlatable with escape from the ranks of the poor:*

> What seem to matter are the backgrounds and unchanging characteristics of individuals: age, sex, education, race and family background. We have not been able to find much evidence that people's attitudes or behavior patterns affect the trends in their well-being. If these findings are confirmed by additional years of data collected on trends in the families' fortunes, they have dramatic implications for the way we view the poor. If the poor cannot control their own fates, it seems unfair to distinguish the old and disabled as deserving and the rest as undeserving and in need of persuasion to change.

---

* Five Thousand American Families, II, 339. Cf. Ibid., I, 25,27

> Can one really assert that because we find little evidence that individual attitudes and behavior patterns affect individual economic progress, that massive changes in those attitudes and behaviors would have no effect? Of course we cannot. But it is difficult to believe that there would not be some examples of subgroups for whom doing the "right" things resulted in rapid improvement. Yet there were none.....
>
> We may have been oversold on the Protestant Ethic and have refused to see the extent to which people are the victims of their past, their environment, luck, and chance.

Taking our subgroup analysis into consideration, we can offer some very rough estimates of the future incidence of poverty. We will assume three futures: one (A) in which we experience an average 1 to 2 percent annual economic growth rate to 1985, another (B) in which there is no economic growth, and another (C) in which we experience an average 1 to 2 percent annual decline in GNP per capita. Under future A, I project the "absolute" poverty population declining to about 8 to 9 percent (4 to 5 percent when in-kind benefits and unreported income are taken into account) by 1976, 5 to 6 percent (1 to 2 percent) by 1980, and about 2 percent (less than 1 percent) by 1985. Under what I regard as the more likely future B (no growth), I still project some slight decline in the poverty incidence, as existing redistributive programs continue and are refined: 10 to 11 percent (6 percent) by 1976, 9 to 10 percent (5 percent) by 1980, and 8 to 9 percent (4 percent) by 1985. Under future C we would, of course, be quite likely to see the incidence of poverty rise. Perhaps we would see 13 percent (7 percent) poor by 1976, 14 to 15 percent (8 to 9 percent) by 1980, and 15 to 19 percent (10 to 12 percent) by 1985. Hence, except under the more optimistic future A, we can expect to see poverty survive for some time in America unless more income redistribution is provided by government than at present, and this is not anticipated, under either future B or C.

PERCEPTIONS AND POLICIES
THE MEASUREMENT AND REDUCTION OF POVERTY

"Revision of Poverty Standards Over Time"

by

Irving Leveson

This chapter was originally issued as a Hudson Institute Draft under the same title, dated February 18, 1975, HI-2218-D. It appears here as a shortened version.

REVISION OF POVERTY STANDARDS OVER TIME[*]

Introduction

Poverty standards have risen in the past with increasing income but they have not done so at a uniform rate. Periodically there has been renewed interest in the problem of poverty and new standards have been established. Statistical definitions of poverty have become critical in the formulation of public policy toward income maintenance and social insurance. With increasing frequency they have been used as explicit criteria in determining the eligibility for programs and services and for evaluating their impact. Reliance on an official definition of poverty makes it essential to develop a systematic method for updating the poverty standard over time.[**]

Over time standards have continued to grow at a reasonably predictable rate. The use of a smooth method of updating is essential in order to avoid the erratic effects on planning and budgeting of an occasional large jump. Orderly updating can help to assure that the poor have a more even sharing of economic gains.

Until now there has been no agreement on the way in which poverty standards should be revised over time. The official definition takes into account changes in the Consumer Price Index but does not take into account the growth of real income. Proponents of alternative measures of poverty differ as to whether or not the poverty standard should be adjusted proportionally for changes in income or whether it should remain at an absolute level. The paper develops a methodology which provides a solution to this problem.

---

[*] The author benefitted from discussions with Zvi Greenwald and Sidney Leveson. The research assistance of Audrey Tobin and typing of Maureen Pritchard are greatly appreciated.

[**] Bette Mahoney, "Review of Poverty and Income Distribution Statistics," _Statistical Reporter_, (January, 1974), pp. 117-121.

The proposed method has powerful consequences. Implications take the form of alternative estimates of historical levels of poverty and projections for the future. The measures developed contribute to the analysis of past program benefit levels and provide a basis for determining benefit levels in the future. Strong policy implications are derived from an interpretation of the method which provides a common basis for the revision over time of both poverty standards and program benefits.

Revision of Standards

The Orshansky Index developed by the Social Security Administration has served as the standard measure of poverty. It contains useful detail, defining poverty according to family status, family size, age, sex of family head and farm/non-farm status and provides a standard for the near poor as well (Table 1). The level at which the poverty line was set ($3,022 in 1960 for a non-farm family of four) was widely accepted when it was introduced in the early 1960s. The measure has been updated regularly for changes in the Consumer Price Index. The Social Security Administration also defines a more generous near poverty level.* Fuchs measure poverty at half the median income.** A wide variety of other measures have been used.

Measures of poverty have two primary features which distinguish them. The first is the level of income at which poverty is defined at a moment of time. The second is the criteria used to raise the poverty standard over time. In this regard the Orshansky Index and Fuchs measure are polar extremes. The Orshansky Index does not respond at all to increases in real income; it is completely an "absolute" poverty standard. The measure "half of the median income" automatically rises in proportion to increases in real income. It is a "relative" poverty standard in the sense that it implies that the poor are no better off when their incomes increase unless they increase relative to the nonpoor. We will opt for the use of a semi-relative definition of poverty.

---

*Mollie Orshansky, "Recounting the Poor - A Five Year Review," Social Security Bulletin (April, 1966), pp. 20-37.

**Victor Fuchs, "Redefining Poverty and Redistributing Income," The Public Interest, 8, (Summer, 1967), pp. 88-95.

TABLE 1

ORSHANSKY INDEX BY DEMOGRAPHIC CATEGORY, 1973

		Nonfarm			Farm		
Size of Family Unit	Total	Total	Male Head *	Female Head *	Total	Male Head *	Female Head *
1 person (unrelated individual)	$2,239	$2,247	$2,350	$2,174	$1,887	$1,951	$1,832
Under 65 years	2,302	2,307	2,395	2,215	1,974	2,035	1,883
65 years and over	2,119	2,130	2,151	2,123	1,813	1,829	1,804
2 persons	2,874	2,895	2,904	2,847	2,434	2,439	2,346
Head under 65 years	2,967	2,984	2,999	2,908	2,543	2,546	2,455
Head 65 years and over	2,662	2,688	2,690	2,675	2,285	2,285	2,285
3 persons	3,525	3,548	3,565	3,447	3,005	3,015	2,878
4 persons	4,512	4,540	4,542	4,521	3,871	3,872	3,775
5 persons	5,322	5,358	5,364	5,299	4,561	4,560	4,609
6 persons	5,979	6,028	6,034	5,965	5,147	5,144	5,206
7 or more persons	7,359	7,435	7,455	7,288	6,349	6,357	6,150

* For unrelated individual, sex of the individual.

Source: U. S. Bureau of the Census, Current Population Reports, Consumer Income, Characteristics of the Low-Income Population, 1973, Series P-60, No. 94, July 1974, Table 7.

The degree of relativeness of poverty is characterized by the "income elasticity of the poverty line." The "income elasticity of the poverty line" tells the number of percentage points which the poverty line increases for a one percent change in real income. An absolute measure of poverty has an income elasticity of zero; when income rises the poverty line remains the same. A relative measure such as "half the median income" has an income elasticity of 1.0 since it increases in proportion to median income. A semi-relative measure of poverty has an income elasticity between zero and 1.0; the poverty line rises when income rises, but not as rapidly.

One way to determine how fully to adjust the poverty line to increases in income is to examine public attitudes. The Gallup Poll provides responses to the question "What's the smallest amount of money a family of four (husband, wife and two children) needs each week to get along in this community." The result is a measure which is consistent over an extended period of time. The responses define a level of living which is relatively high for a poverty line--well above the Orshansky poverty line but below the near poverty line around the time the official level was established.

We can learn from the behavior of the Gallup measure how standards of poverty respond to income changes. In a recent study Kilpatrick has shown that the Gallup measure rises about six-tenths as fast as real income, that is it has an income elasticity of .6. The estimate is consistent in a variety of tests.*

---

*Robert Kilpatrick, "The Income Elasticity of the Poverty Line," The Review of Economics and Statistics, 4, No. 3 (August, 1973), pp. 327-332. Kilpatrick explored the use of different time periods, the use of median and mean income and the use of current and permanent income measures.

In Table 2 we derive estimates of the income elasticity of the poverty line using data for all available years from 1947 to 1973. A one percent increase in median family income is associated with a .67 percent increase in the Gallup minimum income standard (linear "income only" equation with the elasticity evaluated at the mean). In the double logarithmic regression the estimated elasticity is .66. The second set of equations examines the way in which the estimates are affected by inclusion of variables reflecting inflation, recession and war. Neither the percentage change in the Consumer Price Index, the unemployment rate nor defense expenditures as a percentage of Gross National Product have a statistically significant influence.*

This finding increases our confidence in the interpretation of the measure. Variation with economic activity would suggest the measure reflected income expectations, earnings capacity or some other market related concept rather than a more basic standard. The estimates of the income elasticity of the poverty line are virtually unchanged--.66 in the linear form and .65 in logarithmic case. The estimates are lower than 1.0 by amounts which are statistically significant at high levels.

---

*Variation in the rate of price change was dominated by the rapid inflation from 1946 to 1947 as wartime price controls were lifted. In order to test for this effect the regressions were rerun for the years 1948 to 1973. The income elasticity in those tests was slightly lower, .6, and none of the other variables approached significance.

TABLE 2

RELATIONSHIP OF GALLUP MINIMUM INCOME* TO MEDIAN INCOME AND OTHER VARIABLES, AVAILABLE YEARS, 1947-1973

	Linear		Logarithmic	
	Income Only	All Variables	Income Only	All Variables
Intercept	39.1	28.8	1.84	1.84
Median Income (hundreds of 1973 dollars)	.907 (.082)	.887 (.093)	.659 (.057)	.645 (.063)
Inflation Rate**		-.167 (.920)		.003 (.007)
Unemployment Rate**		2.154 (3.312)		.012 (.027)
Defense Expenditure Rate**		.411 (1.234)		.002 (.010)
R^2	.910	.920	.919	.929
Dubin-Watson statistic	1.86	2.219	1.72	2.12

---

* 1973 dollars

** linear

Note: Standard errors are in parentheses

Comparison of Poverty Lines

The Orshansky poverty line for non-farm family of four was $4,540 in 1973 dollars. The official measure adjusts for price changes only and therefore shows no change when expressed in constant dollars. Table 3 compares the official measure, calculated with an income elasticity of the poverty line of zero, with the poverty lines that are obtained using alternative values for the income elasticity.* With an income elasticity of 1.0 the poverty line rises from $3,236 to $6,485 between 1947 and 1973 reflecting the doubling of real median income. The poverty lines shown start at the same level in 1960. More recent values are higher than the official poverty line when a positive income elasticity is used. This reflects the fact that the poverty line is raised by some proportion of the increase in real income. The difference between the poverty line with a positive income elasticity and the poverty line with an income elasticity of zero is greater the larger the income elasticity, that is the larger is the share of the rise in income which is applied to the poverty line. On the other hand a high income elasticity means that the poverty line must have been rising more rapidly in the past in order to reach its 1960 level. Thus, in the earlier years poverty lines with positive income elasticities are at lower levels than the official measure. This result is quite reasonable, for to assert that the poverty line does not respond to income growth at all is to imply that the poverty standard was a larger and larger proportion of median income as we go further back in time. It is not reasonable to assume that the poverty line for a

---

*Details of the method of calculation are presented in Appendix A.

TABLE 3

ORSHANSKY POVERTY LINE FOR A NON-FARM FAMILY OF FOUR, BY INCOME ELASTICITY OF THE POVERTY LINE, 1947-1973

(1973 Dollars)

	Income Elasticity of the Poverty Line					
Year	.0	.2	.4	.6	.8	1.0
1947	$4,540	$4,236	$3,955	$3,662	$3,458	$3,236
1948	4,540	4,214	3,914	3,636	3,388	3,154
1949	4,540	4,201	3,891	3,604	3,348	3,107
1950	4,540	4,248	3,979	3,727	3,502	3,287
1951	4,540	4,282	4,040	3,815	3,611	3,412
1952	4,540	4,308	4,089	3,885	3,696	3,511
1953	4,540	4,374	4,216	4,068	3,928	3,789
1954	4,540	4,352	4,179	4,010	3,854	3,700
1955	4,540	4,409	4,286	4,164	4,053	3,936
1956	4,540	4,467	4,400	4,333	4,271	4,201
1957	4,540	4,467	4,400	4,333	4,271	4,205
1958	4,540	4,467	4,400	4,333	4,271	4,205
1959	4,540	4,517	4,499	4,476	4,458	4,440
1960	4,540	4,540	4,540	4,540	4,540	4,540
1961	4,540	4,549	4,558	4,566	4,575	4,584
1962	4,540	4,574	4,609	4,644	4,679	4,715
1963	4,540	4,606	4,673	4,741	4,810	4,880
1964	4,540	4,641	4,743	4,849	4,956	5,066
1965	4,540	4,677	4,819	4,965	5,115	5,270
1966	4,540	4,722	4,911	5,108	5,313	5,526
1967	4,540	4,750	4,969	5,198	5,438	5,689
1968	4,540	4,790	5,053	5,331	5,624	5,933
1969	4,540	4,825	5,127	5,448	5,790	6,153
1970	4,540	4,811	5,099	5,404	5,727	6,069
1971	4,540	4,809	5,094	5,396	5,715	6,054
1972	4,540	4,856	5,195	5,556	5,943	6,357
1973	4,540	4,876	5,236	5,623	6,039	6,485

non-farm family of four was as high as three-fourths of the median income of families and individuals of $6,011 (1973 dollars) in the years immediately following World War II. When an income elasticity of .6 is used the poverty line obtained for a non-farm family of four is 19 percent below the Orshansky level in 1947 and 24 percent higher in 1973.

Table 4 shows the Orshansky poverty line for a non-farm family of four and for non-farm individuals using an income elasticity of the poverty line of .6. The 1960 figures are the values which apply to every year when the income elasticity is zero. For comparison the table also shows the Gallup minimum income level (for available years) which reflects a long run average income elasticity of .6 - .7. "Half of the median income" which adopts an income elasticity of 1.0 is also shown.

TABLE 4

ELASTIC POVERTY LINES

Year	Orshansky Poverty Line with Income Elasticity .6		Gallup Minimum Income (implicit elasticity .6)	Half of Median Income (Fuchs measure, elasticity 1.0)
	Non-farm Poor Family of Four	Non-farm Poor Individual		
1947	$3,662	$1,814	$4,420	$3,006
1948	3,636	1,801	4,784	2,932
1949	3,604	1,785	4,836	2,888
1950	3,727	1,846	n.a.	3,054
1951	3,815	1,890	5,356	3,170
1952	3,885	1,924	5,200	3,262
1953	4,068	2,015	n.a.	3,517
1954	4,010	1,986	5,148	3,439
1955	4,164	2,062	n.a.	3,660
1956	4,333	2,146	n.a.	3,903
1957	4,333	2,146	5,928	3,907
1958	4,333	2,146	n.a.	3,906
1959	4,476	2,217	n.a.	4,122
1960	4,540	2,249	n.a.	4,218
1961	4,566	2,262	n.a.	4,259
1962	4,644	2,300	n.a.	4,380
1963	4,741	2,348	n.a.	4,534
1964	4,849	2,402	n.a.	4,706
1965	4,965	2,459	n.a.	4,896
1966	5,108	2,530	7,020	5,133
1967	5,198	2,575	6,968	5,286
1968	5,331	2,640	n.a.	5,512
1969	5,448	2,698	6,396	5,715
1970	5,404	2,677	7,488	5,637
1971	5,396	2,673	7,228	5,623
1972	5,556	2,752	8,216	5,905
1973	5,623	2,785	7,904	6,026

n.a.--not available

Implications of an Elastic Poverty Line for the Poverty Income Gap

Before considering some interpretations of the income elasticity of the poverty line the implications for past and future poverty income gaps are considered. The poverty income gap measures the amount of income which would raise all families and individuals below the Orshansky poverty line up to the line. The use of the poverty income gap does not imply that that specific amount of money should be given to the poor but rather gives a general magnitude of the size of the poverty problem. The actual distribution of program benefits among groups varying by level of income depends on the way in which complex work incentives, equity and other issues are resolved. The measures shown are based upon the Current Population Survey. The gap is overestimated by several billion dollars because of the exclusion of benefits under a number of programs. In the official figures the gap is calculated from individual observations using separate poverty lines applicable to different poverty subgroups. Our measures are calculated from aggregate data and adjusted to conform with the figures derived on a detailed basis.

Table 5 compares poverty income gaps under the Orshansky Index with the gaps for an income elasticity of .6. When the poverty line remains constant the deficit was nearly cut in half between 1947 and 1973, from $23 billion to $12 billion in real terms. When the poverty line is raised 60 percent as fast as income the gap increased by one-third between 1947 and 1960 but remained at about $21 billion in 1973. The difference is particularly strong for individuals. With one measure the gap dropped by one-seventh over the entire period while with the other it more than doubled.

TABLE 5

POVERTY INCOME GAP BY INCOME ELASTICITY OF THE POVERTY LINE, BY FAMILY STATUS, 1947, 1960 AND 1973

(billions of 1973 dollars)

Income Elasticity .0

Year	Families	Individuals	Total
1947 (1)	$18.3	$5.1	$23.4
1960 (2)	15.1	5.7	20.8
1973 (3)	7.6	4.4	12.0

Income Elasticity .6

Year	Families	Individuals	Total
1947 (4)	$11.3	$3.4	$14.7
1960 (5)	15.1	5.7	20.8
1973 (6)	13.3	7.3	20.6

Source: Lines 2, 3 and 5 from U.S. Bureau of the Census, Current Population Reports, Consumer Income, series P.60, Nos. 68 and 94. Lines 1, 4 and 6 were derived by first calculating the poverty income gap from aggregate income distributions published in the P-60 series and then adjusting for proportional differences between aggregate estimates and exact figures calculated by the Bureau of the Census based on subgroup poverty lines and income distributions.

The differences become even more dramatic when a longer period of time is considered. Projections have been made to 1980 and 1985 for alternative growth rates assuming the income distribution shifts upward proportionally and allowing for population growth. Table 6 shows how the poverty lines would vary under alternative income elasticities of the poverty line. With an income elasticity of .6 the poverty line for a non-farm family of four is $2,400 higher than with an income elasticity of zero in 1985, a difference of more than 50 percent. The growth rate assumption of 3 percent is closest to the 1947-63 average of 2.7 percent.

With a constant poverty line the poverty income gap continues to fall substantially (Table 7). With a 3 percent growth rate the gap is below $8 billion. Taking into account transfers which are not included in these figures and anticipating moderate growth in transfers the poverty income gap by this measure would effectively be zero by 1985.

The results with an income elasticity of .6 are quite different. The poverty income gap continues at above $20 billion in each year under every growth rate assumption (Table 8). The gap rises from $21 billion to $23 billion between 1973 and 1985 as a result of an increase in population. Although economic growth will reduce the percentage of families and individuals in poverty, if a somewhat elastic definition of poverty is used the size of the deficit does not decline.

Table 9 notes that the use of an elastic measure results in a less rapid shift in the composition of poverty from families to individuals.

The estimates do not project more rapid increases in income for the poor than the nonpoor. The experience from 1947 to 1973 was that a one

TABLE 6

ORSHANSKY POVERTY LINE FOR A NON-FARM FAMILY OF FOUR FOR ALTERNATIVE RATES OF INCOME GROWTH, BY INCOME ELASTICITY OF THE POVERTY LINE, 1980 AND 1985

(1973 dollars)

		Income Elasticity of the Poverty Line					
Growth Rate	Year	.0	.2	.4	.6	.8	1.0
2%	1980	$4,540	$5,013	$5,535	$6,111	$6,747	$7,450
	1985	4,540	5,113	5,758	6,485	7,303	8,225
3%	1980	4,540	5,082	5,688	6,366	7,126	7,976
	1985	4,540	5,234	6,034	6,957	8,020	9,246
4%	1980	4,540	5,151	5,844	6,630	7,522	8,534
	1985	4,540	5,357	6,321	7,458	8,800	10,383
5%	1980	4,540	5,220	6,003	6,902	7,936	9,126
	1985	4,540	5,481	6,618	7,990	9,646	11,647

TABLE 7

POVERTY INCOME GAP IN 1980 AND 1985 FOR ALTERNATIVE RATES OF INCOME GROWTH, BY FAMILY STATUS, INCOME ELASTICITY OF THE POVERTY LINE ZERO

(billions of 1973 dollars)

Growth Rate	Year	Families	Individuals	Total
2%	1980	$6.4	$3.8	$10.3
	1985	5.7	3.6	9.2
3%	1980	5.7	3.5	9.2
	1985	4.7	3.0	7.7
4%	1980	5.1	3.2	8.3
	1985	3.9	2.6	6.5
5%	1980	4.6	2.9	7.4
	1985	3.2	2.6	5.5

Note: Derived by assuming the distribution of income shifts upward proportionally and applying the percentage changes in poverty income gaps calculated from aggregate distributions to the 1973 figures.

TABLE 8

POVERTY INCOME GAP IN 1980 AND 1985 FOR ALTERNATIVE RATES OF INCOME GROWTH, BY FAMILY STATUS, INCOME ELASTICITY OF THE POVERTY LINE .6

(billions of 1973 dollars)

Growth Rate	Year	Families	Individuals	Total
2%	1980	$14.1	$7.7	$21.8
	1985	14.8	8.1	22.9
3%	1980	14.1	7.7	21.8
	1985	14.7	8.2	22.8
4%	1980	14.3	7.8	22.0
	1985	14.9	8.2	23.2
5%	1980	13.9	7.8	21.7
	1985	14.4	8.3	22.6

Note: Derived by assuming the distribution of income shifts upward proportionately and applying the percentage changes in poverty income gaps calculated from aggregate distributions to the 1973 figures.

TABLE 9

PERCENT OF POVERTY INCOME GAP IN FAMILIES, BY INCOME ELASTICITY OF THE POVERTY LINE, 1947-1985

	Income Elasticity .0	Income Elasticity .6
1947	78.2%	76.9%
1960	72.6	72.6
1973	63.3	64.6
1980*	62.0	64.5
1985*	61.1	64.1

---

*Assumes a 3 percent rate of growth of real income.

Source: Tables 7 and 8.

percent increase in median family income was associated with a 1 1/4 percent increase in the average income of the poorest fifth of families when variations in economic conditions are held constant.* A higher growth rate implies that a given amount of poverty reduction will come about in a shorter span of time. Such an assumption would make the declines with a zero elasticity even sharper. The calculations with an income elasticity of .6 show a roughly constant gap regardless of time period. These results are therefore not sensitive to assumptions about the relative growth of incomes of the poor.

The poverty income gap even with a .6 elasticity, represents only 2 percent of the trillion dollar U.S. national income in 1973. A constant gap with rising income implies that the gap is a decreasing percentage; by 1985 the poverty income gap would be only 1.4 percent. If account were taken of unmeasured transfers the gap would be 1 percent of National Income in 1985.

---

*Irving Leveson, "Poverty and the National Economy," Hudson Institute Discussion Paper, February, 1975.

A Further Application

After a rapid rise in the 1960s the average benefit rate under aid to families with dependent children fell back sharply, declining 10 percent in real terms between 1969 and 1973. Analysis of the effects of national economic conditions provides no evidence that this can be attributed to a lag in adjustment of benefits when the rate of inflation accelerated.[*] A highly plausible explanation emerges when benefit levels are compared with poverty standards, however.

The dashed line in Figure 1 shows 12 times the average monthly AFDC benefit as a percent of the official poverty standard for a woman with three children. Figure 2 shows the behavior of the AFDC benefit rate in relation to the same poverty line, computed with an income elasticity of .6. With the absolute poverty standard a decline begins after 1969. However the benefit rate shows a roughly constant relationship to the elastic poverty standard. The increase in the 1960s was unusual. The decline begain in relative terms after 1967 and represented a return to the historical level. The benefit level which is sustained is consistent with the partially elastic poverty standard.

The solid lines plot the relationship of 52 times the average weekly unemployment rate to the annual poverty standard for a non-farm family of four. Again the benefit rate is roughly constant in relation to the elastic poverty standard for most of the period. The dotted lines show a similar but more erratic pattern for the minimum wage multiplied by 2,000 hours.

---

[*] Leveson, *op. cit.*

FIGURE I

RATIO OF SELECTED PROGRAM BENEFIT LEVELS TO POVERTY LINE WITH INCOME ELASTICITY 0, 1947-1974

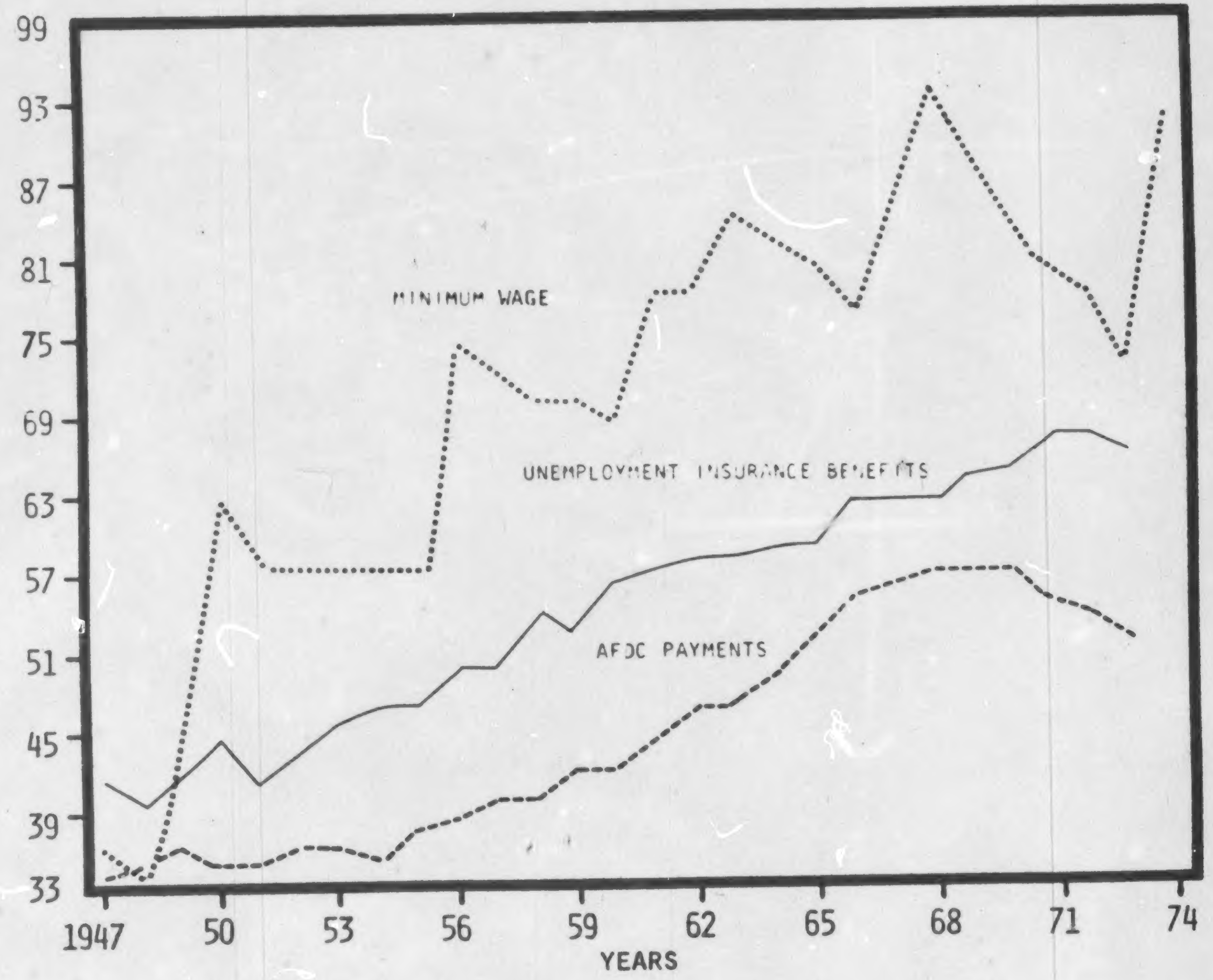
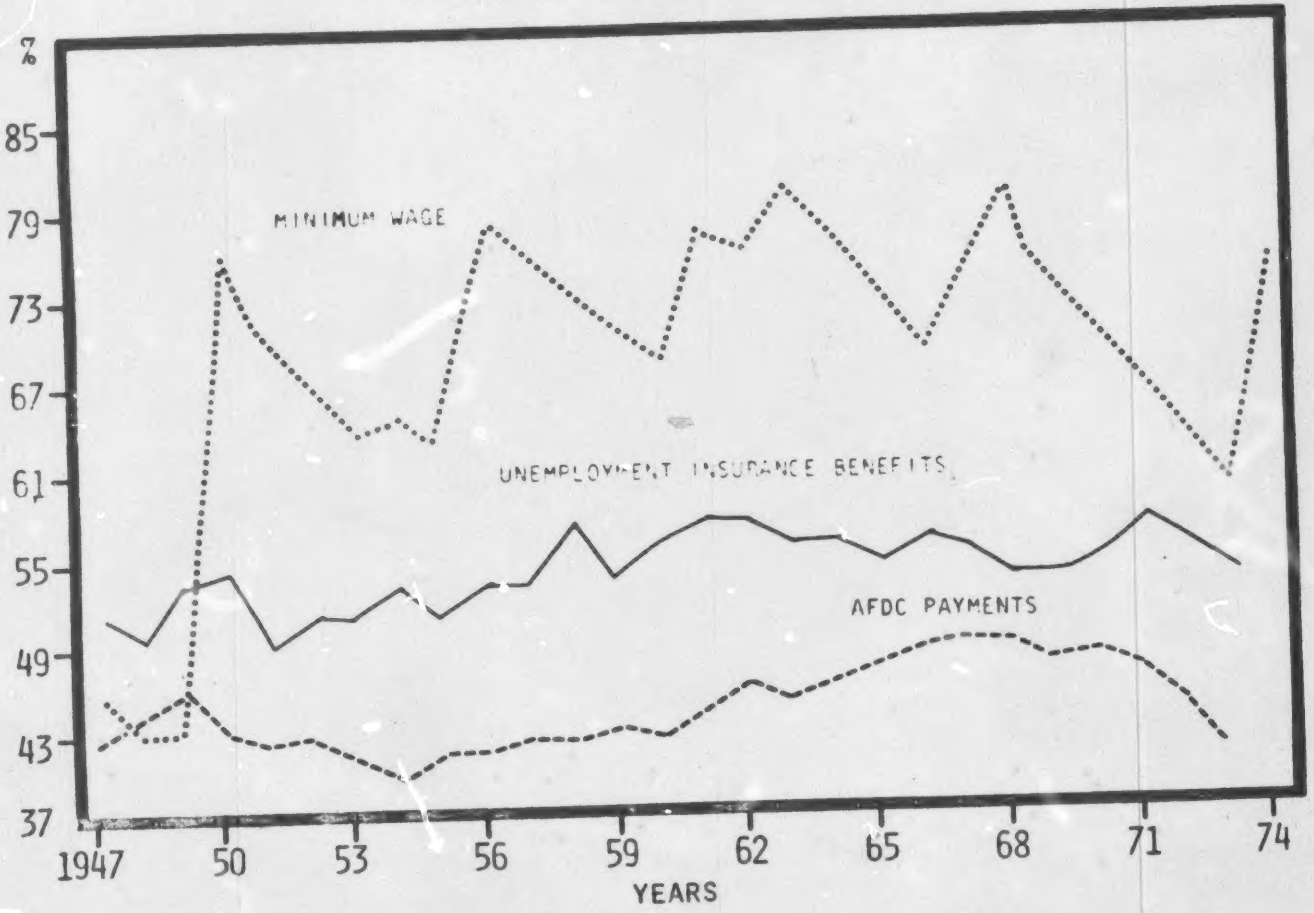


FIGURE 2

RATIO OF SELECTED PROGRAM BENEFIT LEVELS TO POVERTY LINE WITH INCOME ELASTICITY .6, 1947-1974



Interpretation of the Income Elasticity of the Poverty Line

If the income elasticity of the poverty line were 1.0 it would imply a policy of having the poor share proportionally in the growth of real income. The notion of proportional gains implies simply that we do not wish to allow the distribution of income to become more unequal than it is. This requires that the nonpoor share with the poor the gains attributable to increases in education, personal initiative and savings; the philanthropic motive is very explicit. Suppose, for example, the poor received 5 percent of aggregate income. If half of the income of the poor was earned and rose with rising wage rates and half consisted of transfer payments, it would simply be necessary for the nonpoor to transfer 2 1/2 percent of the income they gain to the poor in order for the poor to have proportional gains to the gain in the rest of the economy. Since the poor are a relatively small proportion of the population and receive a far smaller share of income, the criterion of proportional gains is not very demanding.

Efforts prior to 1973 to estimate an income elasticity of the poverty line yielded numbers closer to 1.0. While a longer span of history was covered than is possible with the Gallup data, estimates were not comparable over time. Our estimate of .66 and Kilpatrick's estimate of .6 are statistically significantly lower than 1.0. Thus there appears to be something more than proportionately operating.

Differing Attitudes toward "Deserving" and "Undeserving" Poor

One possible explanation for an income elasticity below 1.0 is that the overall income elasticity reflects a combination of desires to reward effort with proportional income gains and a desire to have a smaller distribution of the gains of progress to persons who are considered less deserving. The income elasticity of the poverty line may reflect some weighted average in which society is willing to give gains proportional to general gains in income to those persons who it would classify (if it could) as deserving poor and is willing to give either no gains or a much lower rate of gain to the undeserving poor.

There is some support for the notion that differences in how deserving a group is considered affects the way they are dealt with in the historical differences in treatment of the aged and disabled compared to welfare populations. Clearly, programs for the aged and disabled have been more generous. For example, Social Security and Supplementary Security Income are now firmly tied to the Consumer Price Index, while AFDC benefits require review and debate before adjustment and benefit increases lagged behind price rises. Furthermore, it was found that unemployment insurance benefits tended to be higher when unemployment rates were high--and the unemployed have less discretion as to whether or not to work.* However, this evidence does not indicate clearly whether the differences apply only to levels of benefits at a point in time or also apply to the way benefit levels for different programs vary over time in the long run.

One way to test the extent to which poverty standards differ according to how deserving a group is considered to be is to see whether or not the spread in benefit levels between categories of public assistance has increased over time. If for example the benefit levels for a group considered deserving were increasing proportionately to income and benefits for a group considered undeserving were increasing at only a fraction of that rate we would find a growing percentage difference between the benefit levels in different categories. Over a long period of time the consequences should be quite dramatic.

---

*Leveson, op. cit.

In Table 10 we examine the movements in the average monthly payment per recipient under the five categories of Public Assistance which were in existence until the first three were Federalized under SSI. The period until 1969 is considered since subsequent rapid economic and program changes may have been associated with distortions in the relative benefits under different programs. Benefits are shown as a percentage of benefits for Aid to the Blind. For our purposes the extent to which a group is deserving is equated with their degree of discretion in working. A rough ranking as to the degree of discretion in working would be: those on general assistance most, AFDC recipients second, the aged and disabled next and the blind and with the least discretion. This ranking takes account of both physical conditions and job opportunities and is necessarily crude. However, the conclusion will not be affected by reasonable changes in the rankings.

General assistance benefits rose rapidly in relation to Aid to the Blind after 1940, the opposite of what would have been expected. AFDC benefits also rose relatively from 1940 levels but changed little in relative level between 1950 and 1969. Old Age Assistance and Aid to the Disabled benefits decreased relative to benefits for the blind. To the extent poverty standards are reflected in benefit levels the hypothesis that standards are increased more rapidly for groups considered more deserving is not sustained. The rankings of benefit levels at a moment

TABLE 10

AVERAGE MONTHLY PAYMENTS PER RECIPIENT UNDER FIVE CATEGORIES OF PUBLIC ASSISTANCE, 1940-1969

	Old-Age Assistance	Aid to the Blind	Aid to the Permanently and Totally Disabled	Aid to Families with Dependent Children	General Assistance
			Benefits		
1940	$20.25	$25.35	-	$9.85	$8.30
1950	43.05	46.00	$44.10	20.85	22.25
1960	58.90	67.45	56.15	28.35	24.85
1969	73.95	98.75	90.20	45.15	50.05
			Benefits as a Percent of Aid to the Blind		
1940	80%	100%	-	39%	33%
1950	94	100	96%	45	48
1960	87	100	83	42	37
1969	75	100	91	46	51

Source: U.S. Department of Health, Education and Welfare, Social and Rehabilitation Service, "Public Assistance--Annual Statistical Data, Calendar Year, 1969," NCSS Report A-7 (CY 69), Table 1.

of time do seem to be consistent with the view that levels of benefits are set highest for groups considered to be most deserving but the pattern is very different for changes over time.*

Discussions concerning the level of the poverty line have centered around determination of need. The use of one particular need-based approach to the problem of changes over time is considered in Appendix B. The considerations which we have just examined focus not on need but rather on entitlement as a factor in the revision of poverty standards over time. There is another and very different kind of entitlement criterion which does appear to be consistent with the evidence and which provides very powerful programmatic implications as well. In order to understand this factor we must look behind the sources of economic growth in the United States.

The Distribution of Gains from General Sources of Economic Growth

Studies of economic growth have found that a large proportion of the increase in output in the American economy is not attributable to increases in quantities of labor, machinery and skills (human capital) but rather is accounted for by a residual which represents technological progress and other factors. The results become even more dramatic when changes in output per capita rather than total output are considered. Table 11 presents findings of Denison's landmark study for the period 1929-1969. Denison indicates the proportion of economic growth which is accounted for by each

---

*We can use the relative level of benefits under each program as an alternative measure of the degree the groups are considered deserving for an additional test of the hypothesis. There is no positive correlation between benefit level and rate of benefit growth.

TABLE II

PERCENTAGE DISTRIBUTIONS OF GROWTH RATES OF POTENTIAL NATIONAL INCOME PER PERSON POTENTIALLY EMPLOYED, ACCORDING TO SOURCE OF GROWTH, 1929-1969

	1929-48	1948-69	1929-69
Potential National Income Per Person Potentially Employed	100%	100%	100%
Sum of Advances in Knowledge and Economies of Scale	63	64	64
Advances in knowledge and not elsewhere classified	42	48	46
Economies of scale	20	17	18
Improved Resource Allocation	21	12	15
Farm	19	9	13
Non-farm self-employment	2	3	2
Education per worker	27	17	21
Labor input per worker, except education	- 5	-11	- 9
Capital per worker	- 5	20	11
Land per worker	- 4	- 2	- 3
Dwellings occupancy ratio	1	*	1
Irregular factors	1	*	0

---

*Closer to zero than .5 or -.5

Source: Edward Denison, Accounting for United States Economic Growth, 1929-1969, Washington: The Brookings Institution, 1974, Table 9.8.

major source of economic growth. The measure of growth shown is potential national income per person potentially employed. This measure abstracts from fluctuations in the rate of use of productive capacity.

The important distinction for the present purposes is between those sources of growth which are associated with gains accruing specifically to individual workers, owners of factories, land, etc., as a result of their own efforts and those sources which produce gains which are of general benefit to society as a whole. In the category of specific sources of growth are clearly changes in the quantity of labor, capital and land. Education also contributes to higher earnings in ways that are systematically related the efforts of individuals rather than general societal forces. The category "improved resource allocation" contains two elements--the shift of labor from farms to nonfarm activities and the shift from self-employment to wage and salaried employment. In both cases there is presumed to be low productivity in the initial activity. Productivity increases as a result of shifts to more productive sectors as wage rates attract labor from agriculture and self-employment. The gains of geographic and occupational changes accrue to the employees as rewards for mobility.

There are two categories however which represent general rather than specific sources of economic growth. These are advances in knowledge and economies of scale. The gains from these sources are of such a nature that they accrue to the entire society rather than appearing as returns to specific workers, machines, etc. The method by which these gains are distributed throughout the population depends on very different aspects of the economic structure.

If we were dealing with a single industry the gains from general sources of productivity growth would be shared in a very simple way. When advances occur it would typically become possible to produce more with fewer resources and prices would tend to fall. The consumer would reap the benefit of lower prices, and, if his money income were the same, he would have a higher real income as a result. While this mechanism applies for an industry, for the economy as a whole it is not necessary that prices fall.

In fact the price level is determined by the rate of growth of the money supply. Changes in the money supply have historically been brought about by such diverse factors as discoveries of gold, changes in financial institutional structures and deliberate policies of the Federal Reserve Bank. Prices have become increasingly inflexible downward, the so-called inflationary bias in the economy. The Federal Reserve Bank has increased the supply of money at a faster rate than the rise in real output so that prices have risen as productivity increased. Had the money supply been increased at a slower rate than real output to induce prices to fall, in the face of price inflexibility the result would have been unacceptable increases in unemployment. Taking price and wage inflexibility as a given the Federal Reserve Bank has accommodated inflation to permit full employment.

The fundamental principle which stems from these conditions is that the gains from general sources of productivity growth are distributed through increases in wage rates rather than through declines in prices. Groups whose incomes come from wage rates that rise with productivity will receive gains from general sources of productivity growth.* However, groups with incomes from other sources will not automatically receive increases in income proportional to productivity gains from general sources. For the present we will focus on the implications of this process for the definition of poverty. Later the implications for the determination of program benefit levels will be considered.

We can view the way in which we increase the poverty line over time as a statement regarding the extent to which the poor are expected to share in economic progress. Between 1929 and 1969 46 percent of the growth of potential national income per person potentially employed was associated with advances in knowledge and other factors not directly owned and 18 percent was associated with economies of scale. In combination these general sources of growth accounted for 64 percent of growth. The figure was quite constant for the two sub-periods examined. While estimates may vary** it is noteworthy that the 64 percent figure falls

---

*Some advances take the form of improvements in products. A properly measured price index will show a product improvement that occurs without a change in the price charged as a decline in price as well. In fact indexes used to determine real income and product growth do not take product changes into account adequately. The estimates used would be somewhat different with better measures but the conclusions would not be fundamentally different. However, it should be noted that product improvements which are not associated with price increases will in fact be passed along as gains to the entire population.

**There have been various issues raised concerning whether changes which Denison classifies as advances in knowledge should be attributed to factors of production. Dale Jorgenson and Zvi Griliches in "The Explanation of Productivity Change," The Review of Economic Studies, 34, No. 3 (July, 1967) attribute gains associated with improvements in physical capital as increases in the quantity of physical capital. (See the exchange with Denison in the May 1972 Survey of Current Business.) Similar questions arise with regard to such factors as learning by doing on the job, knowledge acquired off the job after leaving school and the returns to research and development. The critical difference is that Jorgenson and Griliches treat the gains as the result of economic decisions rather within the range of the Kilpatrick estimate of the income elasticity of the poverty line of .6 and our own estimate of .66. The estimated income elasticity of the poverty line is consistent with the explanation that the poverty standard has been updated over time in such a way as to share equally in percentage terms with the poor that part of economic growth which is attributable to general sources of productivity advance.

---

than exogenously. For our own purposes we wish to treat as general sources not only exogenous advances but also those which do not accrue to the responsible individuals. Thus, a scientist performing basic research earns a salary which does not reflect the value to society of his achievements since the knowledge is unpatentable. The economic calculation from private R&D expenditures will not include that portion of the gains which is available without cost to competitors but general productivity advance will.

PERCEPTIONS AND POLICIES
THE MEASUREMENT AND REDUCTION OF POVERTY

"An Examination of the Several Efforts in the Past Decade to Predict the Future of Poverty in the U.S."

by

Peter Karsten

This chapter was originally issued as a Hudson Institute Discussion Paper under the same title, dated March 5, 1975, HI-2231-DP.

AN EXAMINATION OF THE SEVERAL EFFORTS IN THE PAST DECADE TO PREDICT THE FUTURE OF POVERTY IN THE U.S.

Economists and politicians have for many years offered vague, generalized statements concerning the future of poverty. Poverty was a function of aggregate demand and economic growth patterns, or (conversely) there were many poor immune to economic growth.[*] It would appear that it has only been in the past decade that mathematical models and computers have been utilized to refine our understanding of basic trends among the poor. I have examined the efforts of seven economists to develop the appropriate means by which they might predict the future of the low-income population, and I can offer three general conclusions that I have drawn from my readings: Firstly, the economists concerned agree that the basic trends become more clear as the low-income population is disaggregated and as each sub-group is subjected to an analysis over time which include several variables (median income, annual change in G.N.P., aggregate demand, unemployment rate, etc.). Secondly, the policy recommendations offered by these economists, while logical and appropriate insofar as they went, were unnecessarily vague, and they were void of any attention to possible unanticipated consequences inherent in them, at least one of which (the tendency of low-income female heads of families to reduce their work effort in order to qualify for AFDC payments[**]) appears to have arrested the effectiveness of the anti-poverty policy itself. Thirdly, sophisticated formulas designed to help us calculate the future incidence of poverty are of limited value unless the accompanying predictions regarding demographic change and economic growth are both shrewd and sufficiently varied to compensate for a possible misreading of trends.

---

[*] For examples of the former, see the views of Adolph Berle, President Eisenhower's Treasury Secretary Humphrey, and the C.E.A. of the 1950s. For examples of the latter, see J.K. Galbraith, The Affluent Society, Michael Harrington, The Other America, and the C.E.A. of 1964.

[**] See Heather Ross, Women and Children Last (Urban Institute, 1974).

The first to test the general hypotheses concerning poverty reduction was W. Locke Anderson, whose paper, "Trickling Down: The Relationship between Economic Growth and the Extent of Poverty Among American Families," appeared in 1964.* His analysis suggested that J.K. Galbraith and M. Harrington were correct in claiming that further economic growth would have only modest impact on several sub-groups of the poor. He argued that most population sub-groups were in a "Phase 3" (see graphs on last page) income distribution curve. Using time series data, Anderson estimated the elasticity of income with respect to economic growth for several sub-groups and then fitted a series of regressions relating the annual percentage change in each group's median income to the annual percentage change in deflated U.S. per capita personal income. He found black families to be sensitive, female-headed and elderly family units to be insensitive to economic growth, and he concluded that "special programs" would be necessary "for further rapid reduction in the extent of poverty." Anderson was not specific concerning the nature of the "poverty program" deemed "necessary."

In the same year (1964) Walter Heller, Chairman of the Council of Economic Advisors, testified before a House Subcommittee on the War on Poverty Program of the Education and Labor Committee, which subcommittee was holding hearings on the Economic Opportunity Act of 1964.[*] Heller insisted that economic growth would not reach many poor persons, those "caught in the web of poverty through illiteracy, lack of skills, racial discrimination, broken homes, and ill health." He argued for anti-poverty programs that would equip such persons with "the knowledge, skills, and health to find and hold better jobs." And he offered a prediction: Depending upon whether one used the poverty reduction rate for 1947-1956 (years of high economic growth) or 1957-1962 (years of slower economic growth), the percentage remaining poor in 1980 would be either 10% or 13%--that is, unless anti-poverty measures were enacted and aggressively applied.

---

*Quarterly Journal of Economics (November 1964), 511-524.

Lowell Gallaway attacked Heller (his article must have been set to print before Anderson's appeared) in an article appearing in the American Economic Review in March of 1965.[**] Using a semi-logarithmic regression and what he claimed were better equations than Heller's, Gallaway obtained substantially lower poverty level figures for 1980 (6.4% or 8.7%, the former for the 1947-56, the latter for the 1957-62 rates of economic growth). He concluded that selective anti-poverty programs would be of little value; economic growth alone would suffice.

Henry Aaron responded to Gallaway in the same journal in December, 1967.[***] Using a double log regression, folding in changes both in subgroup median income and subgroup unemployment rates, and disaggregating the poverty population for more detailed subgroup analysis, Aaron confirmed the general conclusions that Anderson and Heller had reached, but Aaron's findings appeared to be more precise. There were several subgroups that were benefitting only modestly from economic growth. And the poverty rate of black families, which was sensitive to the unemployment rate (although many black families were near the poverty level even under full employment), was less sensitive than the poverty rate of white families to median income. Aaron's 1980 poverty level estimates for the two rates of economic growth assumed by the previous analysts (9.7% and 10.9%, or about 8% and 9% by Census-SSA standards) were higher than Gallaway's, and though lower than Heller's, Aaron concluded that Heller and the "War on Poverty" advocates were correct in calling for the "passage of antipoverty legislation."

---

[*] See Heller's remarks before the House War on Poverty Program Subcommittee, Hearings on the Economic Opportunity Act of 1964, H.R., 88th C., 2nd S.

[**] "The Foundations of the 'War on Poverty,'" pp. 122-131.

[***] "The Foundations of the 'War on Poverty' Reexamined," pp. 1229-1240.

Gallaway accepted defeat.[*] The double log regression Aaron had employed was superior to Gallaway's semi-log form. The "backwash" view of impoverished subgroups untouched by economic growth was correct. Poor female-headed families in particular needed "selective programs aimed at improving their relative income status."

Richard X. Chase added further verification of the "backwash" thesis in a 1966 dissertation[**] and a 1969 article (with Gene Laber).[***] He calculated that the rate of reduction of percentage incidence of poverty for the elderly was smaller in prosperous years than in lean years

---

[*] Ibid., 1241, 1243.

[**] "Trends in Poverty Incidence and its Rate of Reduction for Various Demographic Groups: 1947-1963," U. of Md., 1966.

[***] "Economic Growth as an Anti-Poverty Tool," Social Science Quarterly (December 1969), 204-208.

(something I was able to verify for the 1964-1973 years[*]). Chase was the only one of our 7 economists to examine the poverty incidence of unrelated individuals, which he found to be 2 to 3 times as great as that of families due to the large percentage of elderly widows in the unrelated individuals category. Chase's predictions of future poverty rates of black and female-headed families were on the mark, but he failed to fold available demographic change data into his calculations regarding the future poverty incidence among farm families, and failed to anticipate changes in O.A.A. and social security benefits in calculating the future poverty incidence of the elderly. Hence he overestimated the future poverty rate of both of these subgroups.

J. Patrick Madden, an economist on the staff of the President's National Advisory Commission on Rural Poverty, conducted another analysis of subgroup poverty incidences in 1968.[**] He concluded that Aaron's critique of Gallaway's failure to disaggregate his data was justifiable, and he agreed with Anderson and Aaron: economic growth alone was an insufficient anti-poverty tool. "Special programs" (he was not specific) were necessary. Madden's 2 predictions of poverty in 1975 both assumed substantial economic growth, low unemployment rates, and low rates of inflation.

Robert J. Lampman, while critical of J.K. Galbraith's pessimistic view,[***] nonetheless agreed with the majority; economic growth alone is insufficient. "Specialized income transfer programs will be necessary" for the disabled, the elderly and the female-headed family. Lampman found J.P. Madden's poverty projections to be the most realistic. Adjusting Madden's estimates to the Census-SSA poverty line, Lampman recalculated Madden's most favorable estimate to about 8% in 1975.

---

[*] P. Karsten, "A Quarter Century of Poverty in the U.S., 1947-1972: Definitions, Change, Continuity, and the Future," HI-2068-DP, August 26, 1974, p. 19.

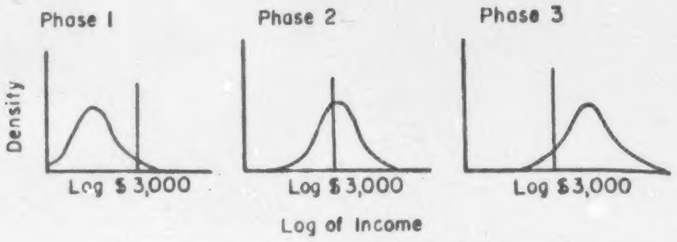
[**] *Rural Poverty* (G.P.O., 1968), 553-560.

[***] Lampman, *Ends and Means of Reducing Income Poverty* (1971), 122-132.

But neither Madden nor Lampman had anticipated the recession or the energy crisis. The most recent Census figures, for 1973, indicate that the poverty incidence in that year was 11%. And this figure predates the oil embargo and the sharply altered economic climate of 1974-75. It seems quite possible that the poverty incidence in 1974 will prove to be higher than it was in 1973.

Economists like Aaron, Madden and Lampman have alerted us to the need to disaggregate the poverty population before attempting to develop predictive measures, and they have armed us with more precise formulas for calculating future poverty incidence. But while good formulas are extremely useful, they are obviously of limited value unless they are fed a wide range of possible futures--high and low rates of growth, low and high unemployment rates. Sophisticated formulas, in the final analysis, must be wedded to shrewd guesses regarding the future state of the economy.

Moreover, the formulas are not sufficiently sophisticated unless they include some mechanism for estimating the impact of the many "selective anti-poverty measures" enacted since 1962. Our 7 economic analysts were all aware of the importance of such "selective anti-poverty measures," but they offered no suggestions as to how one might alter one's predictions in light of the passage of one or another of these measures. In fact, they did not even fold into their to-date data the in-kind transfer value of food stamps, housing, Medicare and Medicaid.* Hudson analysts should take these measures into account, adjusting each subgroup estimate accordingly.



INCOME DISTRIBUTION AT VARIOUS STAGES OF ECONOMIC GROWTH

Source: Anderson, "Trickling Down..."

POOR PERSONS AND FAMILIES AS PERCENT OF TOTAL POPULATION, SELECTED YEARS (FORECASTS IN PARENTHESES)

	1947	1957	1959	1962	1967	1970	1975	1980
Percent of persons in poverty								
(Lampman)	26	19		18	12			
(Social Security Administration)			22	20	13			
Percent of families under $3,000 (1962 or 1963 dollars)								
(Census)	32	23		20		(16)	(14)	
(Council of Economic Advisers)								(10-13)
(Gallaway)								(6-9)
(Gallaway corrected by Aaron)								(10-11)
(Madden)							(10)	

Source: Lampman, Ends & Means of Reducing Income Poverty, 130.

---

*For one effort to fold in such in-kind transfers, as well as unreported income, see Karsten, op. cit., pp. 7-13.

PERCEPTIONS AND POLICIES
THE MEASUREMENT AND REDUCTION OF POVERTY

"Metropolitan Variation in the Incidence of Poverty"

by

Paul M. Bunge

This chapter was originally issued as a
Hudson Institute Paper under the same
title, dated August 9, 1974, HI-2057-P.

METROPOLITAN VARIATION IN THE INCIDENCE OF POVERTY

While it is generally possible to distinguish between "healthy" and "ailing" cities in the United States, it is much more difficult--and potentially much more valuable--to identify and isolate those factors which are crucial to the development and maintenance of a successful and dynamic urban environment. Urbanologists are split over which diagnostic indicators should be given weight in determining whether a particular city is in need of resuscitation, but there seem to be certain factors which are so essential to the stability of an urban environment that their absence or decline serves as a bellweather of impending metropolitan demise. While recognizing that all cities tend to develop in states which are characterized by different manifestations of growth and that any theoretical generalization about the growth requirements of urban areas will inevitably founder upon the rocks of real-life divergence, it is possible to speculate that there exist certain essentials of the "healthy" city, the absence of one or more of which would serve as a warning that future growth may be imperiled. Among the important characteristics which I would tentatively identify with an expanding metropolis would be the following:

--A land area sufficiently extensive to enable tax requirements to be spread over a larger area than the central city, where government services are more costly and more in demand.

--A growing population base consisting of a mix of economic groups and a preponderance of skilled, youthful workers.

--An expanding industrial or commercial center, where urban activities are focused and where the financial "heart" of the city lies.

--A local government which is capable of responding efficiently and vigorously on behalf of the citizens it serves.

The Municipal Performance Report (MPR) has recently published a set of statistics relating to poverty and income inequality within thirty-one cities of the United States. In this paper, I propose to examine their statistics in relation to the four areas of urban dynamism I have sketched above. At the threshold, however, it should be noted that the figures presented by MPR may not accurately represent the true picture of urban poverty and deprivation in two significant respects. First, MPR based its conclusions on per capita income on the Urban Intermediate Budget of the U.S. Bureau of Labor Statistics. Inasmuch as all urban residents do not conform to the spending patterns and practices which underlie the compilation of the Urban Intermediate Budget, important differences may exist in real per capita income which are not reflected by MPR. While the MPR calculations are a useful approximation of metropolitan variations in the cost-of-living, it should be borne in mind that discrepancies may exist between the MPR figures, especially for higher- and lower-income spending units.

Second, because cost-of-living information is available for only a selected group of cities, MPR excluded from its analysis a number of cities, the data for which would facilitate a more complete analysis of the relation between poverty and cost-of-living. The MPR discussion included nineteen of the twenty-five largest cities in the United States, but excluded the fifteenth (San Antonio), the seventeenth

(Memphis), the nineteenth (New Orleans), and Phoenix, Columbus, Ohio, and Jacksonville (twentieth, twenty-first, and twenty-third, respectively). It then skipped over a large group of cities and included data for Austin (56th), Dayton (59th), Baton Rouge (83rd), and Hartford (85th). In addition, Orlando, Florida was included for comparison, although its 1970 population does not gain for it a place on the list of cities with a population in excess of 100,000. It should be borne in mind, therefore, that the MPR analysis does not represent a comprehensive examination of all cities with a similar population.

While the MPR report may be deficient for certain methodological reasons, its exploration of the effects of cost-of-living variations on the numbers of the urban poor is quite revealing. When set beside a listing of urban poor calculated on the basis of the standardized, unadjusted poverty line (Table 1), variations in rank become immediately apparent. The third column represents the percentage of poor within individual states, again calculated on the basis of the unadjusted poverty line. The figures seem to indicate that the extent of poverty within an urban area is not necessarily dependent to any substantial degree upon the economic vitality of the encompassing state.

TABLE I

EXTENT OF POVERTY AND POOR POPULATION

City	Urban Poor-MPR Measure			Urban Poor*			State Poor**	
	Number (000)	Percent	Rank	Number	Percent	Rank	Percent	Rank
Indianapolis	71.9	9.6	1	70,779	9.50	2	9.58	5
Dallas	85.6	10.1	2	112,805	13.36	10	18.53	26
Milwaukee	75.4	10.5	3	80,415	11.21	5	9.62	6
Seattle	58.3	11.0	4	53,264	10.03	3	10.05	11
Houston	140.0	11.4	5	171,705	13.92	14	18.53	26
Minneapolis	50.1	11.5	6	50,290	11.59	6	10.59	15
Denver	60.1	11.7	7	69,406	13.48	11	12.14	21
Kansas City	60.3	11.9	8	63,897	12.60	7	14.48	22
Los Angeles	333.7	11.9	8	365,565	12.98	8	10.92	16
Nashville	54.9	12.2	10	58,978	13.16	9	21.45	30
Honolulu	40.5	12.5	11	28,804	8.86	1	9.20	3
San Diego	88.8	12.7	12	76,847	11.02	4	10.92	16
San Francisco	90.9	12.7	12	97,094	13.56	12	10.92	16
Chicago	437.3	13.0	14	481,842	14.31	15	10.07	12
Dayton	34.4	14.1	15	33,384	13.68	13	9.85	7
New York	1,148.8	14.6	16	1,150,685	14.57	16	10.96	29
Detroit	222.9	14.7	17	220,890	14.62	17	9.33	4
Washington	111.1	14.7	17	122,425	16.17	23	16.14	24
Austin	38.0	15.1	19	40,138	15.93	22	18.53	26
Philadelphia	302.6	15.5	20	293,572	15.06	20	10.46	13
Orlando	15.5	15.6	21	18,958	19.16	29	16.38	25
Baltimore	141.9	15.7	22	163,700	18.07	27	10.00	10
Cincinnati	72.7	16.1	23	77,145	17.03	25	9.85	7
Atlanta	81.7	16.4	24	98,735	19.87	31	20.30	29
Pittsburgh	85.4	16.4	24	78,041	15.01	19	10.46	13
Buffalo	76.9	16.6	26	68,507	14.80	18	10.96	19
Hartford	26.5	16.8	27	25,961	16.43	24	7.06	1
Boston	110.8	17.3	28	98,426	15.35	21	8.37	2
Cleveland	130.2	17.3	28	128,129	17.06	26	9.85	7
Baton Rouge	30.7	18.5	30	30,751	18.52	28	25.78	31
St. Louis	117.6	18.9	31	122,827	19.74	30	14.48	22

---

*Data for 1970.

**1969 Data.

Poverty and Urban Land Area

Both population density and urban land area are important elements of a growing metropolis for a variety of reasons. An extensive land mass enables tax receipts to be collected from a larger number of persons, thus enabling a city to finance expensive central-city operations which inure to the benefit of all residents of the metropolitan area. In addition, unitary jurisdiction prevents the fragmentation of political and financial responsibilities, helping to ensure a more orderly delivery of government services. Cities with persistent financial crises, such as Boston or St. Louis, often ascribe their economic difficulties to an insufficiently broad tax base, while cities with expansive land areas, such as Los Angeles or Houston, have less trouble in financing their local governments.

Table 2 contains data on land areas and population densities for thirty of the cities in the MPR report. The twelve cities with the lowest proportion of urban poor all rank within the top seventeen cities in regard to population density. While there seems to be a definite correlation between population density and extent of poverty, the relationship with regard to land area is less clear.

It should be pointed out that two of the three highest ranking cities achieved their low population densities through incorporation or consolidation. In 1969, Indianapolis assumed jurisdictional responsibility for Marion County, Indiana; and Nashville consolidated with Davidson County, Tennessee in the mid-1960s.

TABLE 2

EXTENT OF URBAN POVERTY AND LAND AREA*

City	Population Per Square Mile		Land Area		Percentage of Resident Poor	
	Number	Rank	Miles	Rank	Number	Rank
Nashville	882	1	507.8	1	12.2	10
Kansas City	1,603	2	316.3	6	11.9	8
Indianapolis	1,963	3	379.4	4	9.6	1
San Diego	2,199	4	316.9	5	12.7	12
Houston	2,841	5	433.9	3	11.4	5
Dallas	3,179	6	265.6	8	10.1	2
Austin	3,492	7	72.1	20	15.1	19
Atlanta	3,779	8	131.5	11	16.4	24
Honolulu	3,872	9	83.9	15	12.5	11
Baton Rouge	4,108	10	40.4	28	18.5	30
Denver	5,406	11	95.2	13	11.7	7
Cincinatti	5,794	12	78.1	18	16.1	23
Los Angeles	6,073	13	463.7	2	11.9	8
Seattle	6,350	14	83.6	16	11.0	4
Dayton	6,360	15	38.3	29	14.1	15
Milwaukee	7,548	16	95.0	14	10.5	3
Minneapolis	7,884	17	55.1	24	11.5	6
Hartford	9,081	18	17.4	30	16.8	27
Pittsburgh	9,422	19	55.2	23	16.4	24
Cleveland	9,893	20	75.9	19	17.3	28
St. Louis	10,167	21	61.2	22	18.9	31
Detroit	10,953	22	138.0	10	14.7	17
Buffalo	11,205	23	41.3	27	16.6	26
Baltimore	11,568	24	78.3	17	15.7	22
Washington	12,321	25	61.4	21	14.7	17
Boston	13,936	26	46.0	25	17.3	28
Chicago	15,126	27	222.6	9	13.0	14
Philadelphia	15,164	28	128.5	12	15.5	20
San Francisco	15,764	29	45.4	26	12.7	12
New York	26,343	30	299.7	7	14.6	16

---

*Data for Orlando is unavailable.

Poverty and Population

Tables 3 and 4 examine the relationship between income inequality and population growth, both for the thirty-one central cities and the corresponding Standard Metropolitan Statistical Areas (SMSAs). While it is true that the extent of poverty within a city's limits is not dependent upon the size of the urban area, it is interesting to compare income inequality figures with population movements over the decade of the 1960s. What becomes immediately apparent is that, while all of the SMSAs (with the single exception of Pittsburgh) have increased their populations during the ten years, many of the central cities have lost population, presumably due to an accelerating flight from the inner city to the suburbs. Moreover, those cities which rank high in terms of income equality are also those cities which have lost the most population. Except for Kansas City (and disregarding the atypical expansions of Nashville and Indianapolis), the top ranking eighteen cities in income equality all declined in population from 1960 to 1970. The reason for this may well be that, as higher-income groups move away from the inner city, the income levels of those who remain tend to even out--downward. Thus, relative equality of income within a city's limits may be more a function of higher-income population movements than of successful income redistribution programs.

It is often noted that poverty tends to be concentrated to a disproportionate degree among minorities, and Table 5 lends credence to this assertion, at least in regard to Blacks. All else being equal, cities with a high percentage of Black residents will tend to have a greater degree of poverty than cities with a more homogenous racial makeup.

TABLE 3

INCOME INEQUALITY AND CENTRAL CITY POPULATION*

	Income Inequality		Population, 1970		Change, 1960-70		
City	Percent	Rank	Number (thousands)	Rank	Number (thousands)	Percent	Rank
Milwaukee	.329	1	717	12	- 24	- 3.24	17
Boston	.344	2	641	15	- 56	- 8.03	23
Indianapolis	.347	3	745	11	269	56.51	2
Dayton	.358	4	244	28	- 18	- 6.87	22
Cleveland	.361	5	751	10	- 125	- 14.27	29
Philadelphia	.362	6	1,949	4	- 54	- 2.69	16
Minneapolis	.364	7	434	25	- 49	- 10.14	26
Chicago	.366	8	3,367	2	- 183	- 5.15	21
Detroit	.366	8	1,511	5	- 159	- 9.52	24
Buffalo	.367	10	463	22	- 70	- 13.13	27
Kansas City	.367	10	507	20	31	6.51	10
Seattle	.370	12	531	17	- 26	- 4.67	20
Hartford	.374	13	158	30	- 4	- 2.47	15
Nashville	.381	14	448	24	277	161.99	1
St. Louis	.383	15	622	16	- 128	- 17.07	30
Baltimore	.385	16	906	7	- 33	- 3.51	19
Houston	.386	17	1,233	6	295	31.45	4
Denver	.389	18	515	19	21	4.25	11
Honolulu	.393	19	325	26	31	10.54	8
San Diego	.393	19	697	14	124	21.64	6
Pittsburgh	.399	21	520	18	- 84	- 13.91	28
Cincinnati	.403	22	453	23	- 50	- 9.94	25
New York	.404	23	7,895	1	113	1.45	13
Austin	.405	24	252	27	65	34.76	3
Dallas	.405	24	844	8	164	24.12	5
San Francisco	.408	26	716	13	- 24	- 3.24	17
Los Angeles	.415	27	2,816	3	337	13.59	7
Baton Rouge	.422	28	166	29	14	9.21	9
Atlanta	.443	29	497	21	10	2.05	12
Washington	.446	30	757	9	- 7	- 0.92	14

---

*Data for Orlando were unavailable.

TABLE 4

INCOME INEQUALITY AND SMSA POPULATION*

	Income Inequality		Population, 1970		Change, 1960-70		
City	Percent	Rank	Number (thousands)	Rank	Number (thousands)	Percent	Rank
Milwaukee	.329	1	1,404	17	125	9.8	23
Boston	.344	2	2,754	8	159	6.1	26
Indianapolis	.347	3	1,110	24	165	17.5	12
Dayton	.358	4	850	25	123	16.9	14
Cleveland	.361	5	2,064	12	155	8.1	25
Philadelphia	.362	6	4,818	4	475	10.9	22
Minneapolis	.364	7	1,814	14	332	22.4	10
Chicago	.366	8	6,979	3	758	12.2	20
Detroit	.366	8	4,200	5	438	11.6	21
Buffalo	.367	10	1,349	21	42	3.2	28
Kansas City	.367	10	1,254	22	161	14.8	17
Seattle	.370	12	1,422	16	315	28.5	8
Hartford	.374	13	664	26	115	20.9	11
Nashville	.381	14	541	28	77	16.6	15
St. Louis	.383	15	2,363	10	258	12.3	19
Baltimore	.385	16	2,071	11	267	14.8	17
Houston	.386	17	1,985	13	567	40.0	1
Denver	.389	18	1,228	23	298	32.1	6
Honolulu	.393	19	629	27	129	25.7	9
San Diego	.393	19	1,358	20	325	31.4	7
Pittsburgh	.399	21	2,401	9	- 4	- 0.2	29
Cincinnati	.403	22	1,385	19	116	9.2	24
New York	.404	23	9,019	1	291	3.3	27
Dallas	.405	24	1,556	15	437	39.1	2
San Francisco	.408	25	3,110	6	461	17.4	13
Los Angeles	.415	26	7,032	2	993	16.4	16
Orlando	.417	27	428	29	110	34.6	5
Atlanta	.443	28	1,390	18	373	36.7	4
Washington	.446	29	2,861	7	797	38.6	3

---

*Data for Austin and Baton Rouge were unavailable.

TABLE 5

EXTENT OF URBAN POVERTY AND BLACK POPULATION, 1970

City	Percentage of Resident Poor		Percentage Black	
	Number	Rank	Number	Rank
Indianapolis	9.6	1	18.0	20
Dallas	10.1	2	24.9	14
Milwaukee	10.5	3	14.7	23
Seattle	11.0	4	7.1	28
Houston	11.4	5	25.7	13
Minneapolis	11.5	6	4.4	29
Denver	11.7	7	9.1	26
Kansas City	11.9	8	22.1	15
Los Angeles	11.9	8	17.9	21
Nashville	12.2	10	19.6	19
Honolulu	12.5	11	0.7	30
San Diego	12.7	12	7.6	27
San Francisco	12.7	12	13.4	24
Chicago	13.0	14	32.7	8
Dayton	14.1	15	30.5	9
New York	14.6	16	21.1	16
Detroit	14.7	17	43.7	4
Washington	14.7	17	71.1	1
Austin	15.1	19	11.8	25
Philadelphia	15.5	20	33.6	7
Orlando	15.6	21	NA	NA
Baltimore	15.7	22	46.4	3
Cincinnati	16.1	23	27.6	12
Atlanta	16.4	24	51.3	2
Pittsburgh	16.4	24	20.2	18
Buffalo	16.6	26	20.4	17
Hartford	16.8	27	27.9	10
Boston	17.3	28	16.3	22
Cleveland	17.3	28	38.3	6
Baton Rouge	18.5	30	27.8	11
St. Louis	18.9	31	40.9	5

The Effects of Government and Economic Activity

Data on government revenue and expenditures are systematically collected for only a portion of the thirty-one cities involved in the MPR study. An examination of the figures for twenty cities reveals that government effort is not necessarily an indicator of a city's rank with regard to depth of poverty or deprivation. In many ways, however, expenditure is an unsatisfactory measure of government effort. Public programs may be more efficient and less costly in younger, Western cities where public unions are non-existent or rudimentary and where civil service systems may be more effective, thus enabling local governments to provide more public services at a lower per capita cost. The statistics on per capita tax revenue indicate that older, Eastern-seaboard cities exact a higher toll in taxation than do other urban areas, although the data is too inexact to be regarded as definitive. Tax burden, or the degree to which urban dwellers are forced to rely upon their own resources for dealing with urban problems, seems to bear no relation to the extent of deprivation within a city. This too is only a rudimentary measure, since it fails to take into account the degree to which the state government is involved in delivering services to the city resident.

To compensate for the lack of satisfactory indicators of revenue capacity and revenue effort, the Advisory Commission on Intergovernmental Relations (ACIR) has compiled an index for states and localities which attempts to measure the tax resources available to a community and the degree to which government units are taking advantage of the resources at their command. The ACIR measure is not intended to be normative, but is designed to yield a relative index of revenue capacity and effort:

an average city would score 100 on the ACIR scale. Table 7 plots state per capita income against what ACIR figures are available for the cities of the MPR study. The results indicate that urban areas, unsurprisingly, have a large revenue capacity available to them and that this capacity is being exploited to a very full degree. The indices also point out the very special problems of some urban areas. Boston, for example, a city plagued with a sharply restricted land area and the home of a vast quantity of tax-exempt institutions, ranks last in terms of revenue capacity (scoring only 89 on the ACIR scale), but first in the degree to which it taxes its citizens for public purposes.

Table 8 depicts the relationship between welfare payment levels and the percentage of the poor receiving benefits. Recipient levels are not available for individual cities, so figures for the SMSAs were substituted as a rough approximation. In addition, the figures undercount the number of persons receiving income support: data on the number of recipients of APTD, AB, and General Assistance are not available, even for SMSAs. Finally, the figures should be interpreted with some caution. Both Cincinnati and Los Angeles appear to have more persons receiving OAA and AFDC than there are poor residents, an unlikely circumstance. For this reason, neither city is included in the rankings. Accepting the figures with these reservations, some interesting conclusions can still be drawn.

First, high benefit levels seem to be consistent with high recipient levels, a phenomenon presented as one explanation of the "welfare explosion" of the 1960s. There are, however, a few notable exceptions to this correlation, so the proposition can only be advanced tentatively.

Second, those cities which rank high in the percentage of poor receiving benefits also tend to be the larger and older of the thirty-one, perhaps indicating that, as municipal services become more sophisticated, public awareness of and willingness to participate in government transfer programs becomes greater.

TABLE 6

GOVERNMENT SPENDING AND URBAN DEPRIVATION*

City	Government Expenditures Per Capita** (Hundreds of $)	Government Expenditures Rank	Tax Revenue Per Capita** (Hundreds of $)	Tax Revenue Rank	Tax Burden Percent of Expenditure	Tax Burden Rank	Deprivation Rank
St. Louis	289.3	13	231.2	9	79.92	1	20
Houston	156.4	20	119.5	19	76.41	2	3
Pittsburgh	219.2	17	165.8	14	75.64	3	14
Dallas	233.0	16	159.4	16	68.41	4	2
Honolulu	526.1	6	353.2	5	67.13	5	11
Boston	724.6	5	486.1	3	67.08	6	18
Indianapolis	178.1	19	118.2	20	66.37	7	6
Denver	382.3	9	253.2	7	66.23	8	6
Chicago	258.5	14	164.1	15	63.48	9	10
Philadelphia	395.9	8	248.0	8	62.64	10	16
San Diego	203.9	18	127.1	18	62.33	11	8
Milwaukee	248.2	15	151.2	17	60.92	12	13
San Francisco	834.2	3	484.1	4	58.03	13	5
Cleveland	326.8	12	189.5	11	57.99	14	19
Detroit	373.8	10	216.3	10	57.86	15	9
Washington	1,267.8	1	660.5	1	52.10	16	12
Los Angeles	362.4	11	175.3	13	48.37	17	4
New York	1,207.4	2	501.4	2	41.53	18	14
Seattle	446.3	7	180.8	12	40.51	19	1
Baltimore	783.0	4	297.6	6	38.01	20	17

---

*Data were available for only twenty cities.

**Expenditure figures for 1971, but population figures for 1970.

TABLE 7

STATE PERSONAL INCOME AND REVENUE CAPACITY

City	State Personal Income		ACIR Revenue Capacity*		ACIR Revenue Effort*	
	Per Capita Amount**	Rank	Index	Rank	Index	Rank
Washington	$6,383	1	115	11	70	18
Hartford	5,342	2	NA	NA	NA	NA
New York	5,319	3	131	6	131	3
Buffalo	5,319	3	NA	NA	NA	NA
Chicago	5,126	5	119	8	97	14
Los Angeles	5,002	6	144	4	117	5
San Diego	5,002	6	106	16	112	8
San Francisco	5,002	6	NA	NA	NA	NA
Honolulu	4,995	9	103	17	72	17
Baltimore	4,897	10	110	13	118	4
Boston	4,870	11	89	19	139	1
Detroit	4,817	12	NA	NA	NA	NA
Cincinnati	4,512	13	127	7	133	2
Dayton	4,512	13	118	9	117	5
Cleveland	4,512	13	110	13	103	11
Seattle	4,476	16	155	1	84	16
Denver	4,449	17	147	2	107	10
Pittsburgh	4,447	18	115	11	103	11
Philadelphia	4,447	18	97	18	115	7
Indianapolis	4,391	20	NA	NA	NA	NA
Minneapolis	4,332	21	NA	NA	NA	NA
Milwaukee	4,207	22	NA	NA	NA	NA
St. Louis	4,206	23	132	5	108	9
Kansas City	4,206	23	116	10	99	13
Orlando	4,188	25	NA	NA	NA	NA
Dallas	4,045	26	NA	NA	NA	NA
Houston	4,045	26	NA	NA	NA	NA
Austin	4,045	26	NA	NA	NA	NA
Atlanta	3,846	29	147	2	NA	NA
Nashville	3,640	30	108	15	85	15
Baton Rouge	3,528	31	NA	NA	NA	NA

---

*Figures for 1966-67; see text for explanation.

**Data for 1972.

TABLE 8

WELFARE PAYMENT AND RECIPIENT LEVELS

City	Welfare Payments*			Number of Recipients, SMSA**		
	AFDC Maximum	Percent of Basic Need	Rank	Recipients of OAA+AFDC	Percent of Poor Receiving OAA or AFDC	Rank
Cincinnati	$200	.7752	14	64,272	145.96	***
Los Angeles	221	.5816	25	757,204	100.91	***
Philadelphia	313	1.0000	1	421,538	89.03	1
San Francisco	221	.5816	25	259,452	85.96	2
Detroit	293	1.0000	1	299,115	85.15	3
Chicago	284	1.0000	1	537,713	84.71	4
New York	336	1.0000	1	1,126,231	83.88	5
Cleveland	200	.7752	14	148,206	80.27	6
Minneapolis	299	1.0000	1	88,888	75.07	7
St. Louis	130	.4000	30	177,066	69.48	8
Baltimore	196	.6490	21	153,574	67.03	9
Honolulu	263	1.0000	1	34,832	66.29	10
Milwaukee	217	.8510	13	71,695	65.77	11
Seattle	303	1.0000	1	67,773	64.11	12
San Diego	221	.5816	25	85,611	62.81	13
Pittsburgh	313	1.0000	1	135,558	60.11	14
Denver	235	1.0000	1	67,931	58.56	15
Kansas City	130	.4000	30	70,045	58.41	16
Buffalo	336	1.0000	1	70,601	58.27	17
Atlanta	133	.6394	22	92,867	57.76	18
Washington	238	.7484	20	129,276	55.88	19
Dayton	200	.7752	14	34,964	52.16	20
Dallas	179	.7489	17	81,560	47.05	21
Orlando	134	.6009	23	26,408	43.81	22
Baton Rouge	109	.5117	28	20,567	41.92	23
Indianapolis	150	.4132	29	40,558	41.91	24
Houston	179	.7489	17	94,221	38.03	25
Nashville	129	.5945	24	23,196	31.08	26
Austin	179	.7489	17	13,755	30.38	27
Boston	349	1.0000	1	NA	NA	NA
Hartford	330	1.0000	1	NA	NA	NA

---

*Data on payment levels for 1969.

**Data on recipient levels for 1970.

***Data incomplete; see text.

Sources

Advisory Commission on Intergovernmental Relations. Measuring the Fiscal Capacity and Effort of State and Local Areas. Washington: Government Printing Office, March, 1971.

U.S. Department of Commerce. Statistical Abstract of the United States, 1973. Washington: Government Printing Office, 1973.

U.S. Department of Commerce. County and City Data Book, 1972. Washington: Government Printing Office, 1973.

U.S. Department of Health, Education, and Welfare. AFDC: Selected Statistical Data. Washington: Government Printing Office, 1971.

PERCEPTIONS AND POLICIES
INCOME TAX AND INCOME REDISTRIBUTION

"The Meaning of the Income Tax"

by

Jane Newitt

This chapter was originally issued as a Hudson Institute Discussion Paper under the same title, dated February 24, 1975, HI-2223-DP.

THE MEANING OF THE INCOME TAX

I. INTRODUCTION

This discussion is not based on systematic review of recent literature but on an unsystematic sampling of frequently cited earlier works, especially Henry C. Simons, Personal Income Taxation (1938), and Walter Blum and Harry Kalven, Jr., The Uneasy Case for Progressive Taxation (1953[*]). The inquiry was necessitated, at least in the author's view, by the frequency with which recent writing on social policy assumes (or, more rarely, contends) that downward redistribution of income is an accepted function of government in this country and an explicit objective of the federal income tax.

There is no argument that the income tax has the effect of downward income redistribution if the proceeds are used as they presently are.[**] However, in developing recommendations for federal social policy, effect is an importantly different concept from intent, and, so far as existing social programs are concerned, a strong case may be made that the redistributional effect invariably occurs incident to the pursuit of other objectives, such as the democratic commitment to investment in the welfare of children, social insurance for the worker and his family, special obligations to veterans, and many others. To my knowledge, the nearest exception to this generalization is the food stamp program, where eligibility is determined simply by an income criterion and "work test," but even here the sharp restrictions on use of the transfer (as well as the work test) suggest something other than commitment to downward income redistribution, *per se*.

---

[*] A 1970 paperback edition including an introduction written in 1963.

[**] Of course, it would be possible to combine a progressive income tax with a regressive benefit structure.

On the other hand, the targeting of social programs on special groups and purposes could be dismissed as historical happenstance if one could show that redistributional intent is inherent in the tax system which funds the programs. If this is in fact how most people see the system, and if the history of the income tax supports this perception, the implications for social policy analysis and prescription differ from those that apply to an alternative state of affairs. Of course, the implications also differ if what "most people" think differs from the history of expert opinion, but this discrepancy may almost be assumed out of hand to exist to some extent, and the accommodations it entails are, as I see it, part of the normal work that distinguishes public policy analysis from academic scholarship. Thus my inquiry assumes the need for this kind of accommodation and focuses instead on the question of the legitimacy of the redistributional-intent assumption that characterizes the general social policy literature of recent years.

II. DISCUSSION

A. Progressivity vs. Proportionality

The historical literature on tax policy pays much attention to the distinction between a progressive and a proportional (or degressive) tax system. However, so far as redistributional intent or effect is concerned, this distinction is a matter of more or less, not different, other things being equal. Further, a proportional tax *is* progressive if the first dollars of income are exempt from taxation, and steeply progressive for incomes not much above the exemption level. An exaggerated case may be constructed illustratively from the U.S. income tax that was enacted in 1894 and declared unconstitutional the following year. This tax exempted the first $4,000 of income and thereafter applied a flat rate of 2%. If we substitute a flat rate of 50%, the progressivity effect is apparent: e.g., total income of $6,000 would be taxed at a rate of 16.7%, total income of $20,000 at 40%, and so forth. (In fact, the $4,000 exemption in the 1894 law meant that only five percent of households paid any tax at all.)

Progressivity versus proportionality is of course an important question from some points of view. In my opinion, the least important of these is the equity issue. While it is true that a flat percentage looks more equitable than a graded one from outside the system, common sense says that the taxpayer notes mainly the amount paid, and that this amount increases as his income grows.*

More important is the flexibility that progressivity implies politically for tax rate increase or reduction. As Blum and Kalven note, this tends to increase the tax share of the rich:

> "At the time of an emergency which brings about a tax increase, it appears that a sudden new burden can be more easily borne by the rich....When tax reduction is in the air, it appears that the less rich are more deserving of the reduction, thus suggesting that the system should not return to the tax pattern which prevailed before the increase brought on by the emergency." (P. xx)

---

*Some empirical support for this speculation is offered at the end of the paper.

This is not an invariable law. The progressivity of the federal income tax has been reduced on several occasions. However, current tax debate supports the second part of the conjecture, and it seems reasonable to state that the practical advantages of progressivity to the conduct of government are sufficient to bar the possibility that even an arch-conservative President and Congress would be inspired to substitute proportional taxation.

However, most discussion of the progressivity issue is too lofty to state this advantage, and there is some question whether the public has ever attended to the issue at all. At least, Blum and Kalven express bemusement over its small role in history. Looking at this country and England, they note remarkable casualness about the particulars of income tax enactment. In England the progressive principle was established noncontroversially by Lloyd George in 1909, the United States following a few years later but without any evidence that the British precedent was influential. The United States had a progressive income tax during the Civil War. While the progressive feature was dropped after the war, the tax itself was retained until 1872, and no constitutional challenge preceded its elimination.* The British had proportional income taxes during the Napoleonic Wars, and again for several decades in the mid-nineteenth century. These taxes included exemptions that were graduated with relation to income, but this variant of progressivity (although not the tax itself) was apparently also noncontroversial.

---

*The Confederacy's equivalent had much steeper rates, up to 25%, compared to 10%.

Further, it was, as stated, a proportional tax that this country's Supreme Court rejected in 1895. Justice Field's concurring opinion, quoted in Blum and Kalven, is interesting in view of the great acceleration, during the past decade, in the tendency of the federal government to use income as the determinant of eligibility for social program benefits. Field said of the tax:

> "It discriminates between those who receive an income of $4,000 and those who do not. It thus vitiates, in my judgment, by this arbitrary classification, the whole legislation....The legislation...is class legislation. Whenever a distinction is made in the burdens the law imposes or in the benefits it confers on any citizens by virtue of their birth, or wealth, or religion, it is class legislation, and leads inevitably to oppression and abuses, and to general unrest and to disturbance in the society.... It is the same in essential character as...the English income tax statute of 1691, which taxed Protestants at a certain rate, Catholics, as a class, at double the rate of Protestants, and Jews at another and separate rate." (B&K, p. 7)

Seventy years after this opinion was written, the use of a "poverty line" to determine eligibility for federal social program benefits produced sufficient "disturbance" to cause quick corrective measures that blurred the line in various ways. However, the constitutionality of this kind of class legislation had long since been established, and the events of the past decade suggest the same for popular acceptance. Legal discrimination on the basis of income does not seem to be viewed in the same way as discrimination on the basis of race, but, of course, the latter was also generally accepted a few generations ago.

A final point on tax progressivity is that its difference in degree from proportionality clearly has been considered significant by people who regard income redistribution as a legitimate and desirable governmental function, and such people have been around for a long time. Henry C. Simons is often quoted on this point:*

> "The case for drastic progression in taxation must be rested on the case against inequality--on the ethical or aesthetic judgment that the prevailing distribution of wealth and income reveals a degree (and/or kind) of inequality which is distinctly evil or unlovely."

B. Means for Altering the Income Distribution

Simons was firmly committed to the reduction of economic inequalities but fearful of means for doing this which tampered too much with the market. Thus his case for government tax policy to redistribute income was accompanied by distrust of government policies which attempted to alter the initial distribution of income. Perhaps because his views are considered archaic, this part of his argument is rarely quoted, but his Introduction, written in 1936, is quite specific:

> "When Republicans were the leading disseminators of economic fallacies, it was proper for the academic person to stress the problem of inequality. Nowadays, however, there is no issue as to the need for lesser concentration of wealth and income. Indeed, we tend now toward relative overemphasis, both in our talk and in our action, upon this particular objective....(T)here are now momentous issues as to the means by which inequality may properly or actually be mitigated--as to how we may diminish economic inequality without creating a greater inequality or monopoly of political power." (P. xx vi)

He states that just as the Republicans consolidated their power by "dispensing gigantic subsidies in the form of protective-tariff duties," the Democrats of his time were "purchasing allegiance by endless restraints upon internal trade":

---

*Henry C. Simons, Personal Income Taxation (University of Chicago Press, Chicago), 1938, pp. 18-19.

> "(I)n the name of justice (fair wages, fair prices, parity prices, and other derivatives of the medieval conception), we are perverting and destroying the free enterprise, free markets, and competitive free trade which are essential to representative government and to orderly political life on a vast national scale." (P. vii)

So much for the "radicalism" of Henry Simons, except for one curiosity. While he dismissed the idea that progressive income taxes could be left to the states to enact, his concern about the dangers of centralized power led him to favor a "generous" federal program of revenue-sharing:*

> "The revenues from the personal taxes should be shared unconditionally; and the rules determining the relative shares should be designed to prevent both discretionary, administrative manipulation and frequent or substantial alteration by future Congresses...(O)nly one basis of distribution seems to merit consideration: every state should receive the same fraction of the revenues collected from taxpayers subject to its jurisdiction." (Page 216, emphasis added)

While it is true that our current federal revenue sharing program is not precisely inverse to per capita federal income taxes by states, its rationale is much closer to this formula than to Simons's, and I (somewhat inconsistently) doubt that many Americans question, in the abstract, the legitimacy and desirability of nationally engineered income redistribution from richer to poorer states. That this kind of redistribution is a proper objective of government, rather than something that occurs incident to other objectives, seems to me to be generally accepted, although I lack documentation. The uncertainty in my mind relates to redistribution among individuals.

---

*He did not, however, entirely exclude grants-in-aid with strings attached.

On this point, the placement of Simons needs an earlier referrent, and a useful one is Jacob H. Hollander's The Abolition of Poverty (1914). Simons may be seen as reacting to the enactment of Hollander's program, which included social security, minimum wage, public work, unemployment insurance, and legislation favorable to labor unions. Hollander has a chapter entitled "The Distribution of Income" the first few sentences of which might have been written by Simons:

> "The existence of poverty thus passes from a problem of economic production into a problem of economic distribution....The National dividend is abundant and to spare. But the process of allotment seems to give not enough to many, and by inference too much to some." (P. 34)

Hollander is concerned with government action to influence the initial distribution of income among workers and their families.* Simons feels that this type of approach has over-reached (or may have). He looks to tax policy for further progress, and he perceives the tax formula of his time as soft on the middle class. Of the rich, he comments: "It is high time for Congress to quit this ludicrous business of dipping deeply into great incomes with a sieve." He states further: "What happens to the rates beyond $20,000 is not of major importance. This is not to say that rates are now excessive in the upper brackets....; only that they are absurdly low in the case of what conventional discussion strangely refers to as the lower and middle-sized incomes," meaning, in his late-Thirties context, the incomes between $3,000 and $20,000.

---

*Neither he nor Simons addresses the problem of the lumpenproletariat, except that Hollander in a sentence or two describes this group as scum, alludes vaguely to medical help as well as firmness, and offers the vivid sentence that "Poverty has...been likened to a treacherous footpath encircling the hopeless morass of pauperism."

C. Income Redistribution as "Social Justice"

In relation to Simons's views on revenue-sharing, and his fear of excessive power concentration, the sentiment just cited is a peculiar form of redistributionism, amounting to a strong argument for taking money away from people without any clear sense of what it should then be used for. Interestingly, Simons cares enough about the taking-away part to accept the expected cost of a slow-down of savings, investment, and economic growth:

> "(I)t is hardly questionable that increasing progression [of taxes] is inimical to saving and accumulation. Under an individualistic system, great inequality is necessary to rapidly increasing indirectness in the productive process--necessary to the increasing use of resources in the production of more (and different) resources. The cost of our present stock of productive instruments was, in a significant sense, decades and centuries of terrible poverty for the masses. Conversely, the cost of justice will be a slowing-up in our material advance (although this effect may be modified if and as governments assume the role of savers)." (P. 22)

In the modern vein, Simons stresses relative poverty as the modern social evil:

> "There is real point...in the suggestion that, within wide limits, the quality of human experience would be about the same at one income level as at another if the relative position of persons and classes remained unchanged. Poverty, want, and privation are in large measure merely relative. Thus, something can be said for mitigation of inequality, even at the cost of reduction in the modal real income." (P. 25)

Such passages seem to me clearly to qualify Henry Simons as a direct ancestor of current social policy thinkers. Had the idea of extending tax rates down to the exempt poor in the form of a "negative income tax" occurred or been suggested to him, I strongly suspect he would have adopted it, this speculation being fortified by the fact that the concept's originators, a few years later, shared Simons's fear of excessive concentration of political power.*

On the other hand, Blum and Kalven state in their 1963 edition that:

> "The defenders of progression have not followed the path of Simons. Instead, they are willing to acknowledge redistribution as relevant but are unwilling to rest the case for progression on it. Typical of such contemporary commentators is Ray Blough (1955). After saying that sacrifice, faculty, and even benefit theories 'point to progression, but only in a rather moderate degree,' he argues that the current tax rates 'involve also at least a degree of skepticism that the distribution of income is demonstrably the best one.' And having so modestly indorsed the equalitarian rationale for progression, he adds the further qualification that the 'attitude that has chiefly been involved' is not that of 'deliberately using tax and expenditure measures to reduce the incomes of people because these are deemed to be too high' but rather that of 'looking around for the best place to impose taxes that have to be levied on someone.'" (P. xv)

Such relative disinterest definitely should not be regarded as characterizing the intellectual community in general in the post-war period. Henry M. Oliver, Jr., in A Critique of Socioeconomic Goals (1954), noted of equality of income: "In recent decades this goal has gained greatly in popularity." Several years earlier, Bertrand de Jouvenal began a lecture series at Cambridge with the statement: "It is now generally regarded as within the proper province of the State, and indeed as one of its major functions, to shift wealth from its richer to its poorer members."**

---

*Certainly this is true of Milton Friedman (1951). From a secondary source, I infer it may also be true of George Stigler, who proposed extension of the income tax "with negative rates, to the lowest income brackets" as an alternative to the minimum wage. (American Economic Review, June 1946, pp. 358-65)

**Bertrand de Jouvenal, The Ethics of Redistribution, Cambridge U. Press, 1952, p. 1.

It seems that, in relation to the rest of the educated elite, the liberals among tax experts have tended toward the moderate side. Blum and Kalven themselves (1953) reposed the ethical case for sharply progressive rates almost entirely on the contribution to equality of opportunity for children. As to adults, "whether the argument for redistributing income is put in terms of increasing the general welfare or of redressing the injustice of the existing rewards, it is always precariously close to being rested simply on envy." (p. 89) Nonetheless, the statement that most accurately sums their position is affirmative:

> "(W)e are impressed with the importance of the society's retaining the power to review and adjust the distribution of income and wealth which its market and its laws bring about....The ultimate appeal of the progressive tax may then be that it is the only attractive way of doing this without interfering too much with the operation of the market." (P. 84)

In other words, they themselves are inclined to agree with Simons.

D. Elite vs. Public Sentiments

However, none of this casts light on what the general public thought or thinks. We may assume that this is different from the thinking of the intellectual community, because this community (its right, left, and center) has always had a special perspective on the matter of income distribution. Until recently, scholarship and asceticism were closely linked, by ancient monastic tradition and, more often than not, by necessity in a society whose material rewards went mainly to the entrepreneur and the business manager. At least in modern times, there has always been ambivalence in the scholar's disdain for material things and bourgeois values. Interwoven with the commitment to higher values has been the need for props to self-esteem.

In this subcultural climate, it is logical that the existing distribution of income should be regarded as irrational and unjust, the conservative reaction being snobbish alienation, the liberal or radical a desire to rectify what is felt to be wrong. Ideologically for the society, pragmatically for himself, the traditional scholar could not identify success with income and property. Thus we find Henry Oliver poking fun at a bourgeois conception of equality of opportunity:*

> "If differences in innate abilities are accepted,...the requirements of an equal start are that holdings of property and benefits of formal education and general environment be such that the equal exercise of equal abilities (directed toward money-making) will result in equal incomes, and that the equal exercise of unequal abilities will result in incomes proportional to talents. If equality of opportunity is to be made complete, some system of handicapping for differences in innate abilities must be arranged, so that degree of success is dependent solely on extent of effort...[within] the bounds established by 'fair rules.' He who honorably strives the hardest for dollars wins the game."

As my quotations from Simons show, the liberal version of the traditional scholarly posture is not inconsonant with fear of government power. Citing Oliver again, "Government wisdom, benevolence, and economy are not so well proved as are personal failings." The point is rather that the intellectual views himself as different from most people in his attitudes toward property and income, although he sometimes expresses bemusement that the lower half of our income distribution does not seem to share his attitudes.

Second, the intellectual has traditionally regarded his social role as centering not only on his special knowledge but on his detachment from the day-to-day life of government and economy. Simons's introduction is very much in this tradition: "When Republicans were the leading disseminators of economic fallacies, it was proper for the academic person to stress the problem of inequality." But the New Deal brought to first flower the concept of the brain trust, and post-war prosperity increased the material rewards of scholarship. What these changes mean for the cultural tradition of the intellectual community is not yet fully defined, but what they seem to mean in the perhaps transitional 1970's is unremitting disdain for the society from which the new material blessings flow, strengthened commitment to the redistribution of income as a legitimate and important government objective, and negligible fear of accesses to government power.

---

*Oliver, op. cit., p. 62.

Finally, the intellectual seems generally to assume--and dismiss out of hand--that most people do not agree with him. Obeisance to representative democracy has conspicuously disappeared from the social policy literature since the early post-war years when the Oliver and Blum-Kalven books were published. Explicitly or by inference, modern social science scholarship that is oriented toward public policy recommendation rejects the factor of public opinion except as a tactical obstacle (or a tactical support).

In this connection, and in conclusion, it is interesting that Blum and Kalven were inspired by their abstract study of the case for progressive taxation to plan a survey of public attitudes: "(I)f there was any vitality at all to the notion of a community sense of justice as a foundation for law, it should appear in considering the blunt issue of how the tax burden in fairness ought to be allocated among individuals." Their first--as it turned out, only--step in this direction was a pilot study which "indicated that our expectations were clearly in error." Since this, to my knowledge, is the only effort ever made to ascertain what 'most people' think about the income tax, I would like to quote the findings at length:

> "Tax questions generally were of little interest to the public, and among tax questions the issue of distributing the tax burden ranked near the bottom. Even when we had reconciled ourselves to the absence of any conscious opinion and had turned to search for 'latent sentiments,' our efforts were almost completely frustrated....Except for a relatively small elite, the very notion of a progressive tax proved to be beyond grasp. By and large people could understand the concept of the wealthy paying more in tax than the less wealthy, but they did not comprehend the idea of the wealthy paying more than a proportionately greater tax....Proportionate and progressive rate schedules simply were not seen as involving a choice of principles.
>
> "This same mathematical barrier probably accounted for another difficulty. It is our impression that most people were interested only in the level of their own taxes and not in the ratio of that level to the tax burden on others with different incomes.
>
> "In probing as deeply as we could for the reason why the few who did understand the progression principle thought the rich should pay more, we were unable to find anything other than simple, unanalyzed ability-to-pay notions. There was virtually no associating taxes with economic incentives or purchasing power--or with envy or hostility to the rich or with concern over economic inequality." (P. x)

In their 1963 introduction (from which the quotation is taken), Blum and Kalven say that, in their book, "we had noted that the intellectual arguments in support of progression all came well after progression had become a political fact. It could be inferred that the intellectuals were following the public rather than leading it and were seeking to find a rational basis for a strong but unarticulated popular sentiment." The pilot study of public opinion did not sustain this hypothesis:

> "To the faintest degree, an interesting contrast emerged from the pilot work: the public, unlike a few intellectuals, virtually never thinks of the progressive tax as an instrument for reducing economic inequality. But more basic is the fact

> that the progression issue is so far beyond the reach of public opinion that it is futile and misleading to talk here of comparing expert opinion and public opinion." (P. xi)

I myself would reverse the order of what is "more basic" between these two points. While it is conceivable that public opinion has changed since the study was done (late 'Fifties, I assume), the burden of demonstrating this change would seem to rest with those who contend it. Otherwise, we have to question the proposition that the public at large regards income redistribution as a *de facto* objective of the tax system, or that it favors instituting this objective. If this is true to anything like the extent that the Blum-Kalven pilot study suggests, social policy prescription should place great emphasis on achieving an accommodation of "expert" and public views.

This is understood in the Congress; it is understood in the White House (and no less by President Johnson than by Presidents Nixon and Ford). This understanding explains why Nixon's welfare reform proposal (the Family Assistance Plan) was not the simple redistributive measure favored by the experts but limited to families with children and encumbered with "work requirements." The real problem, in my opinion, is not the perceptions of politicians but the mutually reinforcing *principle* of scholarly detachment and *sentiment* of alienation which limit the scholarly community's ability to inform the decision-making process.

PERCEPTIONS AND POLICIES
INCOME TAX AND INCOME REDISTRIBUTION

"Federal Income Distribution Policy in the 1970s"

by

Irving Leveson

This chapter was originally issued as a section of a Hudson Institute Draft under the same title, dated September 27, 1974, HI-2081-D. It has been revised for use in this collection.

FEDERAL INCOME DISTRIBUTION POLICY IN THE 1970'S[*]

Introduction

In the 1960's, the public assistance program received a strong indictment for discouraging work, encouraging families to separate, discouraging the development of skills, low benefit levels, incomplete coverage of the working poor, demeaning treatment of claimants, high administrative costs, payments to ineligibles and inequities in benefits between geographic areas and between persons working and not working. The Congress and the Administration embarked upon a concerted effort to overhaul the welfare system. The debate over welfare reform promised to produce fundamental changes but reached an impass over conflicting objectives. The major choice which emerged was between high levels of income guarantees which resulted in adverse work incentives and stronger work incentives at a cost of low guarantees. In spite of the dilemma, surprisingly rapid progress was made with very modest changes in work incentives and further advances are under consideration. If a decision is made to introduce strong incentives for work and family cohesion, it will be necessary for much more extensive change to take place.

The present paper reviews the changes which occurred through early 1974. Important actions have taken place in such diverse areas as agricultural subsidies, unemployment insurance, public service employment, tax changes, food stamps, social security, and private pensions. Further research is being carried out toward the development of policies for a more coordinated system. That effort also deals with the rapidly changing developments in 1974 and 1975. The results will be reported separately.

---

[*] Excerpted from a September 1974 Hudson Institute Discussion Paper by the same title. The assistance of Esther Adam is greatly appreciated.

The Evolution of a Program Package

In order to circumvent the conflict between incentives and income guarantees, emphasis shifted in the 1970s to raising income guarantees in ways which would produce the smallest decreases in the supply of labor. The changes in some of the program areas are traced briefly below.

Agricultural Subsidies

In 1973 there was a major change in the system of farm price supports. A policy of direct government payments to producers of wheat, feedgrains and cotton to restrict commodity production was replaced with a set of target prices. If the market price fell below the target price farmers would receive cash subsidies for the difference.* While the guaranteed prices were below the market prices, market prices had undergone substantial increases. As a result farm incomes were guaranteed at historically high levels. Over the long run this plan can be expected to raise farm incomes while making incomes more stable at the same time.

Unemployment Insurance

The Unemployment Insurance System has generally provided for replacement of 50 percent of an individual's weekly wage up to a maximum level, typically set at about half of the average wage in covered employment. Coverage has been nearly complete except in state and local governments, non-profit organizations, domestic service, farms, agricultural processing and very small firms. Benefit levels have increased over time at about the same rate as wages.

---

*"President Signs Farm Bill Ending Price Subsidies," The New York Times, August 11, 1973, pp. 1, 52.

A key feature of the Unemployment Insurance System has been the inclusion of an experience rating. It was initially believed that if an employer's contributions were dependent upon the experience of his workers in collecting benefits, the employer would have an incentive to avoid employment fluctuations. Instead the experience has been that unemployment is determined predominantly outside the employer's control, by seasonal, cyclical and irregular fluctuations in demand, so that his opportunities to reduce fluctuations in employment are quite limited. Furthermore, the experience rating system has done little to deter employers from certifying voluntary terminations as involuntary at their employees' behest.

The provision of regular benefits has been supplemented by programs to provide extended benefits during periods of recession. An important feature in the acceptability of these programs is that they come into operation when unemployment is least voluntary. Extended unemployment benefits were introduced at the Federal level on a temporary basis in 1968 and 1971 and at various other times by individual states. The Unemployment Compensation Act of 1970 established a system under which an additional 13 weeks would automatically be payable under 50-50 state and Federal funding whenever the insured unemployment rate averaged 4.5 percent or more for 3 consecutive months. In addition, states would become eligible for a 50 percent Federal contribution to extended benefits for 13 weeks if the state's insured unemployment rate averaged 4 percent or more for 13 consecutive weeks and exceeded the average for the previous two years by 120 percent.* The benefits paid under the supplementary unemployment benefits programs are shown in Table 1. While these funds never represented more than 1/7 of regular unemployment benefits, they are more closely targeted to those classified as poor.

Public Service Employment

At the same time there have been significant developments in the use of public service employment programs as a temporary measure to counter high unemployment. Under the Emergency Employment Act of 1971 $2.25 billion was spent on the Public Employment Program to create jobs for more than 400,000 persons. The program went into operation when the national unemployment rate exceeded 4.5 percent for three consecutive months and provided additional funding for areas with unemployment of 6 percent or more for three consecutive months. The experience was considered successful in terms of the speed and efficiency with which aid was provided, the degree to which the target population was reached, the amount of real work performed and the number of persons working after leaving PEP jobs.

The program was superceded by the Comprehensive Employment and Training Act of 1973 which provided funds only for areas with unemployment rates of 6.5 percent or more for threee consecutive months. The CETA program allowed funds to be used for a wide range of manpower services under Special Revenue Sharing and not necessarily on public service employment. The maximum salary that could be subsidized a public service employment was reduced

---

*U.S. President, Manpower Report of the President, April 1967, Washington: U.S. Government Printing Office, 1967, pp. 151-158.

TABLE I

EXPENDITURES UNDER SUPPLEMENTARY UNEMPLOYMENT BENEFITS PROGRAMS, 1958-1973

Cal. Yrs.	Extended Benefits (States and 1970 law)	Temporary Extended Unemployment Compensation (1961 law)	Temporary Unemployment Compensation Program (1958 law)
1958			$398,243,200
1959			202,463,000
1960			
1961	$23,979,325	$540,238,000	
1962	35,289,156	193,136,000	
1963	57,447,483		
1964	56,989,016		
1965	64,680,638		
1966	1,517,970		
1967	510,853		
1968	1,588,483		
1969	953,257		
1970	38,706,336		
1971	39,221,252		
1972	664,082,085		
1973	481,523,836		

Source: U.S. Department of Labor, Manpower Administration.

from $12,000 to $10,000 and special consideration was given for those with the lowest prospects of finding jobs.*

Perhaps the most significant aspect of the development of public service employment has been the increasing disposition to use these prorams in the event of even more significant "temporary" unemployment problems in the future. In related work we have questioned the merits of this strategy.

Tax Reductions

Changes in the tax structure between fiscal years 1969 and 1972 resulted in tax reductions which were concentrated among the lowest income levels. Effective 1972 married couples filing foint returns with incomes below $2,800 and single individuals with income taxes below $2,050 were no longer required to pay any Federal income tax. These limits are increased by $750 per child so that the figure for a family of four is $4,300. The figures compare with the official poverty standards of $4,275 for a family of four and $2,040 for single individuals. Inflation pushed the poverty line for a family of four above $5,000 in 1974 but the income levels below which no tax is required had not yet been revised upward at the time of this writing.

More general tax reductions favoring low income families took place at the same time. Figures presented in the President's 1973 budget message compare groups with the same money incomes over time. They do not allow for the rapid inflation during the period, and they do not consider taxation of non-wage incomes. The results are nevertheless significant:

Taxes Paid as a Percentage of Income by a Married Couple with Two Children

Wage Income	1969	1972	Change
$ 5,000	5.8%	2.0%	-3.8%
7,500	10.1	6.4	-3.6
10,000	12.2	9.0	-3.2
15,000	15.1	12.1	-3.0

Food Stamps

Another significant initiative was the extension of the food stamp program to the entire nation effective January 1, 1974. Benefits varied with income up to a maximum of $1,704 for a family of four. Historically spending has been as follows:

Fiscal Year	Cost (Millions)	Beneficiaries (Millions)
1967	$ 173	2.2
1968	229	3.2
1969	550	6.5
1970	1,523	10.5
1971	1,797	11.7
1972	2,131	12.1

An increase in spending of $2-3 billion is anticipated. By 1975 benefits are expected to reach over $4 billion and beneficiaries 16 million persons.*

---

*See Robert Lampman, "The Role of Income-Conditioning in the American System of Transfers," Proceedings of the Social Statistics Section of the American Statistical Association, 1973, pp. 85-88, and Barry Bleckman, Edward Gramlich and Robert Hartmen, Setting National Priorities, the 1975 Budget, Washington: The Brookings Institution, 1974, Chapter 7, and American Enterprise Institute, Public Claims on U.S. Output, Washington: 1973, Chapter 10.

Social Security

Major intiatives have taken place in the Social Security program. Minimum pension benefits based on earnings were increased from $55 per month in January 1967 to $93.80 per month in January 1974. The rise in benefits of 71 percent came during a period when prices were rising 42 percent. The result was a 20 percent rise in real benefit levels. Benefits were tied to consumer prices after 1974. The Supplemental Security Income program represented a systematic approach toward the state-administered Welfare categorels of Old Age Assistance, Aid to the Blind and Aid to the Disabled. Effective January, 1974, a uniform benefit level of $1,752 for an individual and $2,628 for a couple was established under Federal administration with an option of state supplementation of benefit levels. In addition, Medicare benefits were extended to the long-term disabled in the Social Security Program in 1973.

Private Pensions

Poverty is influenced in two ways by the provisions of private pension plans. Unless pensions are adequately protected, employees may lose the benefits of employer contributions if they change employers. Furthermore, a firm which makes pension payments only to employees who are already retired finds that the cost of retaining an employee increases dramatically as he nears retirement age. This creates an incentive for the firm to discharge an aged employee just before he becomes eligible for his pension benefits and for firms with many older workers to go out of business or change corporate identity. The 1974 pension reform bill makes significant steps in requiréing current payment of pension obligations into insured funds and providing vesting after a period of continuous service. However, in the near future the costs of guaranteeingexisting benefits will slow the growth of private pension benefits.

Pension plans now provide close to an adequate level of replacement of income at the time of retirement. A survey of 28 private pension plans in 1969 found that the median rate of income replacement for low earnings workers was 28 percent of pre-retirement income. The addition of Social Security benefits would raise the replacement rate to 73 percent for a single person and higher for someone receiving Social Security benefits for their spouse as well.*

Private pensions do not cover half of the labor force. There are no minimum standards of coverage and some private plans replace only a small fraction of income. Furthermore, private pension benefits do not usually increase with the cost of living so that real incomes fall rapidly with advancing age. If private pension benefits are viewed as an add on to Social Security benefits it would be reasonable to have a great amount of diversity as long as Social Security reached an acceptable minimum standard itself, but the appropriate evolution probably includes much greater coverage and protection against inflation than currently exists.

Expenditure Trends

The magnitude of the changes which have taken place can be seen in the rise in social welfare expenditures under public programs. These increased from 8.9 percent of gross national product in fiscal year 1949 to 17.6 percent in fiscal year 1973 (Table 2). The great bulk of the

---

*Peter Henle, "Recent Trends in Retirement Benefits Related to Earnings," Monthly Labor Review, 95, No. 6 (June 1972), pp. 12-20.

TABLE 2

SOCIAL WELFARE EXPENDITURES UNDER PUBLIC PROGRAMS AS A PERCENT OF GROSS NATIONAL PRODUCT, BY TYPE OF EXPENDITURE, FISCAL YEARS 1949-1973

	1949-50	1959-60	1969-70	1972-73*
Social Insurance	1.9%	3.9%	5.7%	7.0%
Public Aid	.9	.8	1.7	2.3
Health and Medical Programs	.8	.9	1.0	1.2
Veterans Programs	2.6	1.1	.9	1.1
Education	2.5	3.6	5.3	5.3
Other	.2	.2	.5	.5
Total	8.9%	10.6%	15.3%	17.6%

*Preliminary

Source: Alfred Skolnik and Sophie Dales, "Social Welfare Expenditures, 1972-73," Social Security Bulletin (January, 1974), Table 3.

rise took place in social insurance and education. Figures for more recent years would show a continuation of the rise and further increases can be expected as a result of recent program changes.

Further Opportunities

A number of further program initiatives are possible which are not heavily dependent upon the way in which the issue of work incentives will be addressed.

The establishment of minimum incomes below which no income taxes are required has been eroded by increases in the cost of living since 1972. As a result persons below the poverty line could pay up to $100 in personal income taxes in 1974. Provision for changes in minimum income levels to keep parity with the cost of living would allow the take-home pay of poor families just below the poverty line to increase by one percent per year faster than if the erosion were allowed to continue. The cost of eliminating personal income tax below the poverty line in 1974 would be about $2 1/2 billion.

The cost of Social Secuirty has been very high because of "grandfathering in" persons who were not covered during their entire working lives. As a result, benefit schedules reflect a low rate of return on contributions. This problem will continue for a long time because of the large recent increases in benefits which accrue at first to those who are already retired. A further factor is that there will be heavy demands as the large number of "war babies" reach retirement age around the end of the century and as the drop in the birth rate reflects itself in a relatively smaller labor force at the same time.

An immediate possibility with regard to Social Security tax rates is to exempt from Social Security payroll taxes the first four thousand dollars of earnings, with an offsetting increase in taxes on earnings above a minimum level. This policy would operate as a kind of wage subsidy plan, increasing the take-home pay of the working poor.*

Private pension plans could be made more responsive to inflation by requiring the amount of retirement income to depend on the interest rate earned by the pension fund as well as on the amount of employer and employee contributions to the fund. Interest rates tend to reflect fluctuations in the rate of inflation, and automatically adjusting benefit rates upward when a higher return is earned woudl provide some measure of additional protection. The opportunities to use this sort of measure require careful attention.

There are a wide variations among the states in the level of benefits provided under the Aid to Families with Dependent Children's Program and under Medicaid. The introduction of national minimum standards for income eligibility limits and benefit payments would make an important contribution to directing resources where they will be used by those who are most impoverished. The standards could allow for differences in benefit levels among states in order to reflect variations in the cost of living, in order to avoid unusually large work incentive effects where wages are low, and to take into account variations in fiscal capacity and fiscal effort.

---

*An indication of the effects of these programs can be seen in the comparison of gross and take-home pay of currently employed employable welfare recipients in New York City and Buffalo in May 1973. While 13 percent had gross earnings below $75 per week, 21 percent had take-home pay below that level. Thirty-seven percent had gross earnings of $100 per week or less but 52 percent had take-home pay of $100 or below. Blanche Bernstein, _et_. _al_., "Obstacles to Employment of Employable Welfare Recipients," Center for New York City Affairs, New School for Social Research, 1974, Table 14.

Provision for health insurance for the poor can vary greatly under various options which are being considered. Coverage will be very incomplete unless there is a policy of mandatory enrollment so that those with the highest risk of illness and the lowest ability to pay for medical care do not have benefits denied because of ignorance, lack of foresight or red tape.

Concluding Remarks

The nature of these suggestions and some of the proposals suggested elsewhere indicate substantial opportunities for changes in public policies and programs which influence the distribution of income without resolving the impasse over welfare reform. At the same time there appear to be real opportunities for balancing the objectives of providing incentives to work, acquire skills and for families to remain together, assuring a decent minimum income and keeping the costs of public programs at a reasonable level. The resolution of this issue depends on how highly we value each of these goals. But the choice among objectives will be made not in the aggregate but in the way we decide the specific elements of program design. If we really believe the goal of encouraging work is important we will have to make decisions which skew the incentives heavily in the direction of working. The approach which accomplishes this is an earnings supplement which adds to what is earned rather than taking away from it. A specific proposal is presented in the full study where its rationale is discussed and issues of coordination with other components of our evolving income distribution policy are considered.

PERCEPTIONS AND POLICIES
INCOME TAX AND INCOME REDISTRIBUTION

"A Hard Second Look at the 'Negative Income Tax'"

by

Jane Newitt

This chapter was originally issued as a Hudson Institute Draft under the same title, dated March 27, 1974, HI-1973-D.

A HARD SECOND LOOK AT THE "NEGATIVE INCOME TAX"

Back in the bad old days, if a welfare mother earned a dollar, a dollar was subtracted from her benefits. Then along came the negative income tax theorists with their insight that this experience was equivalent to paying a 100% tax on one's earnings. This was alleged, not unreasonably, to provide a disincentive to work. Also, it did not seem fair that an effort to become self-supporting should yield no material reward.

So the system was changed. In the language we now customarily employ, the welfare mother "retains" $30-plus-30% of monthly earnings. Similarly, most proposals for welfare reform incorporate a graduated scale of benefit loss. For example, the "implicit tax rate" in the 8 plans recently field-tested in New Jersey and Scranton, Pennsylvania was, variously, 30%, 50%, and 70%.

However, over the past decade, this usage of the term "tax" has become so familiar that, today, the quotation marks are often omitted. One encounters such flat statements as that a welfare mother's earnings are taxed at the same rate as those of the President of Podunk Electric.

The purpose of this paper is to argue that, as the idea of a metaphorical insight embodying a hypothesis about motivation has blurred with usage, habits of thought have developed that may obscure worthwhile lines of observation and inquiry. In short, I want to restore the quotation marks and see what happens.

The first thing I note is that I like the quotes partly for ideological reasons. As a child of the work ethic, I feel that earnings of

$4,000 are socially (not merely economically) more desirable than welfare payments of $4,000, or than a combination of earnings and welfare payments. People shouldn't view subsidy reductions as a tax on earnings but as a lessening of dependency: trading the crutch for the cane, so to speak, with the hope of ultimately being able to throw the cane away.

By contrast, those who regard the irrationalities of our pre-tax income and earnings distribution as a major social deficit place an absolute value on downward income redistribution and take a holistic view of the low incomes thus raised, rather than sharply differentiating the earnings and "transfer" components. Given this holistic view, that which depresses the rise in a total low income also has a unitary character. The reduction of subsidies as earnings rise does not appear essentially different from the taxes to which the earnings are subject. Since our language lacks a generic term for these income depressants, one might as well use "tax rate." Such polemical advantage as this usage confers is ideologically justified: the public should be educated to think in this way.

So much for that. What else do I notice when I replace the quotes? First I discover that earnings-change is not a one-way street, and that the "tax rate" concept is only relevant to the experience of the aid-recipients whose earnings are rising. This is the point of view from which a low "tax rate" is liberal: as we put it, a low rate allows more retention of earnings than a high one.

But the "tax rate" concept does not describe the experience of the individual who suffers a reduction of earnings. Here we should speak of the earnings-substitution rate: if a worker's earnings fluctuate seasonally, or he has to take a pay cut, or his wife has a baby and drops out of the work force, how well do increased benefits compensate for the loss of earnings? Clearly, on the down-side, the "liberal" tax rate becomes an illiberal earnings-substitution rate. While the program where benefits are reduced most gradually as earnings rise always means higher total income for any eligible earnings level (given the same base), it also entails the most precipitous decline in total income as earnings fall.

This point is illustrated by the following simple schedules,* which use a guaranteed income base of $3,000, with 30% and 70% rates of benefit change (increase or reduction) relative to earnings:

Schedule A			Schedule B		
30% change rate			70% change rate		
Benefit	Earnings	Total Income	Benefit	Earnings	Total Income
$3,000*	0	$3,000	$3,000*	0	$3,000
2,850	500	3,350	2,650	500	3,150
2,700	1,000	3,700	2,300	1,000	3,300
2,550	1,500	4,050	1,950	1,500	3,450
2,400	2,000	4,400	1,600	2,000	3,600
2,250	2,500	4,750	1,250	2,500	3,750
2,100	3,000	5,100	900	3,000	3,900
1,950	3,500	5,450	550	3,500	4,050
1,800	4,000	5,800	200	4,000	4,200
(1,714	4,286	6,000)	--	4,286	4,286
	- - - - -				
1,500	5,000	6,500			
	- - - - -				
900	7,000	7,900			
	- - - - -				
300	9,000	9,300			
	- - - - -				
--	10,000	10,000			

*Non-farm family of four.

Looking at this table, we see that a family with a total income of $4,050 suffers a loss in total income of $700 under Schedule A, if its annual earnings drop by a thousand dollars. Under Schedule B, the family with total income of $4,050 loses only $300, given a thousand dollar drop in earnings.

---

*Many more complicated schedules have, of course, been developed, but the principle of evaluating them as two-way streets applies to all.

Possibly, this is not an important difference. However, I would guess that one of the soundest applications of the maxim that poverty is relative applies to the situation of declining income. Especially in view of the fact that the recently completed NIT field tests show no consistent correlation of changes in employment and hours worked to variations from 30% to 70% in the "implicit tax rate," it may be well to change our perspective and to evaluate varying benefit-change rates by reference to their impact on family well-being. While this is certainly no less speculative an issue than evaluating work by reference to disincentives, neither is it less important. For whatever it's worth, my own opinion is that, for families with total income of (say) $6,000 or less, well-being is best served by a system that increases and reduces total income slowly as earnings change (e.g., the 70% tax/replacement rate) rather than by one where total income rises rapidly as earnings rise (e.g., Schedule A), but hits the skids when they fall.

The second point I note is that fixation on the "tax rate" breeds resignation to the fact that the program which offers high rewards for work is frightfully expensive and inefficient in aiding the very poor. The inefficiency is illustrated by Schedule A: if the family with no earnings is to receive $3,000, a family with $7,000 earnings "must" receive $900. Of course, one can reduce the inefficiency by upping the "tax rate" for higher earnings levels, but this again skews the logic of the system on the down-side: the lower one's earnings the greater the loss in total income as earnings fall.

Regarding costs, the only recent calculations I have at hand were done by Brookings. These indicate that (in 1976) a negative income tax with a base of $3,600 and a 33% "tax rate" would cost more ($22 billion) than one with a base of $4,800 and a 67% "tax rate" ($21.1 billion). For a program restricted to families with children the same low base and "tax rate" would cost $17.6 billion; the high base and "tax rate," $15.6 billion.* Thus, if we are comparing advantages for programs of comparable cost, my Schedule B should have perhaps a $4,000 base. At this level, one can begin to think of an NIT as supplanting most other forms of direct aid to the poor. By contrast, making costs for the two schedules comparable by reducing the base for Schedule A makes this schedule little more than a regional income redistribution mechanism, with great residual requirements for supplementary aid in the northern, midwestern, and western states, if they are to sustain existing welfare benefit levels.

Thus the arguments for what prevailing perceptions regard as an "illiberal tax rate" become rather numerous:

1. It lowers total program cost for a relatively high guaranteed base income, thereby reducing the need for supplementary forms of assistance
2. It concentrates aid on those who need it most
3. It reduces the impact of earnings reductions on the low-income family's budget
4. It aids family budgeting by limiting the fluctuations of total family income associated with seasonal earnings patterns

---

*Edward R. Fried, et. al., Setting National Priorities: The 1974 Budget, The Brookings Institution, Washington, D. C., 1973, pp. 83 & 90. Their projection of present public assistance payments and food stamps shows a 1976 cost of close to $13 billion.

5. Insofar as the NIT field study results provide a valid basis for generalization, it does not entail any greater disincentive to work than do formulas with low "tax rates." (Also, the relatively low ceiling on eligibility means negligible work-disincentive effects at income levels where a plan like Schedule A would still be paying significant subsidies.)

It may, of course, be that any NIT formula will have unacceptable effects on employment. The field study cited dealt only with two-parent poor and near-poor families, with an average of four children,* and these families had not previously been eligible for public assistance. Its behavioral findings, even if valid for the group tested, cannot be extended to the types of families now receiving "welfare" or to childless individuals and couples. A program providing benefits to childless households would, in my opinion, produce a major increase in irregular and part-time employment. For this reason, I would prefer that assistance to the (non-elderly) childless remain locally administered and funded.

However, I feel that the general question of possible unacceptable employment effects constitutes an additional argument for a Schedule B type program: that is, the fewer beneficiaries a program has, the fewer people have a vested interest in its preservation. Herbert Gans, noting this point, has proposed an NIT formula in which a majority of Americans would receive some benefits. He has done this explicitly to maximize the political constituency for the program's retention. While Gans's formula is much too costly to be taken seriously. the "escape-hatch" issue is important also in comparing potentially enactable programs. Being more timid than Gans, and lacking his ideological commitment to income redistribution, I again vote for the Schedule B type over Schedule A. I want an escape hatch.

---

*Almost three-quarters of these families had earnings above the poverty line. At least in the North-east, it is hard to find "officially" poor two-parent families.

But why have the graduated subsidy feature at all? If nothing is so inevitable as death and taxes, perhaps that is a good reason not to attach the term "tax" to a noninevitability. Hypnotic preoccupation with such schedules as I have shown prevents one from asking if there may be less costly means for encouraging passage from economic dependency to self-support. Obviously, there are. Coercion is one, and we perpetually monkey about with "work requirements," but not only is our ambivalence on this issue extreme in law as well as mores; also, coercing people to work is generally more expensive than keeping them on the dole.

Second, with "welfare mothers," we combine the wielding of a rubbery sort of stick with the facilitating provision of day-care centers. Per child served, this costs over $2.000 annually; Jules Sugarman's figure for New York City two years ago was $3,000. There are, of course, cheaper and not necessarily inferior means to this end, but I will risk the wrath of some of my colleagues by pointing out that preventing babies from being born to families that can't support them is the most effective approach to this particular work-disincentive problem.

However, this nearly exhausts the list of things we are doing, except insofar as quasi-compulsory work training programs attempt to instill motivation to work. Yet there surely are other possible ways to make people want to work. After all, every year very large numbers of young people whose families are not about to let them starve (and may often not want to let them go) make the transition to economic independence, frequently accepting some years of relative penury as the price.

We could do more to facilitate this transition for young people from low income families. Martin Feldstein, for example, has noted our lack of a counterpart to the youth employment service in England, which sees to it that youth leaving school have jobs.* Possibly we could do something along this line. However, the cultural expectation that employed youth will contribute to family support is strong in England and moribund here. Although we have regulations that try to change this by fiat, the success of a British-type approach would probably hinge on not enforcing the regulations. That is, it would be an investment in the future, and should not be aimed very hard at reducing existing welfare rolls.

Also, as Jeffrey Marsh suggested, we might try a lottery as a cheap substitute for "work incentives" of the NIT kind. If people below a given earnings level automatically, at no direct cost to themselves, participated in a lottery on the basis of the number of hours they had worked in the previous week or month, it strikes me as plausible that the work incentive provided might compensate for the restoration of the old 100% "implicit tax rate" on aid-recipients' earnings. After all, this rate does not wipe one out. It merely prevents total income from rising, below the aid-cutoff point. Add to this the work incentive provided by hope of a windfall, allow enough time for someone one knows to have received the windfall, and you might have a workable system. At least, unlike other proposals, it would be some fun.

Finally, replacing the quotes around "tax rate" invites one to think about the unthinkable. Is it possible to imagine a workable system with a super-confiscatory "tax rate": i.e., a system where benefits are wiped out if the aid-recipient earns a penny? While one may wish to embellish such a system with Marsh's lottery (which need not, of course, pay out money--summer camp for the children or a year's groceries might be more palatable), I would like to consider the naked proposition, and my answer here is "Yes, given several basic assumptions."

---

*Martin Feldstein, "The Economics of the New Unemployment," The Public Interest, Fall 1973.

The first assumption is that the guaranteed income for indigent families is finely tuned enough to supply quick access to benefits. Eligibility certification should take no longer than a week.

Second, the system has to have a short memory. This means that, if the income for an indigent family of four is $250 a month--$3,000 a year--high earnings in August will not influence benefits in November. For a system with a one-month memory, $600 earnings in August and no earnings in the next two months would mean no benefit in September and a full $250 benefit in October. For a system with a two-month memory, there would be no benefit in September and a $150 benefit in October.*

The third assumption does not pertain to structure but to the perceptions of aid-recipients. Under the present public assistance program, at least in New York, payment is twice monthly. Given my system-structure assumptions, this suggests that any job which offers more money for the next 2 weeks than my guaranteed income for indigents does has competitive merit. This merit is increased if the job pays on a weekly basis, since weekly pay is functionally equivalent to an advance on the welfare check.

Given these assumptions, it is not wholly implausible that a system with a super-confiscatory "tax rate" would be workable. With a benefit of $250/month, it would reduce labor supply at and below the present minimum wage to a level determined by the appeal of "the dignity of self-support" and by expectations of advancement. Except in depressed areas (which

---

*Further unthinkable thought: a system with no memory if the previous month's earnings were less than (say) twice the benefit.

I will get to in a minute), this is not necessarily undesirable. More jobs become available to teenagers, and the system itself might--probably should--incorporate work permits for teenagers in recipient families. Further, reduced supply of low-wage labor should stimulate productivity. By contrast, an NIT operates, in effect, as a low-wage subsidy: the work-incentive for the poor is a disincentive for rationalization of processes for the employer. Not only is there a potential drag on the economy because people with much higher earnings than $3,000 a year have some disincentive to work, but also because of the businessman's reactions.

Probably my binary system* offers little new disincentive to work for people earning $2.50 an hour and up on a regular basis, nor is there much impact on the low-wage, multiple-earner family. Part-time as well as "casual" labor is discouraged (at least, where earnings cannot go unreported), but a motive is created to bunch one's work. That is, in a system with a one-month memory, one month's work at any wage under about $3.15 an hour yields no gain in the long run, but six months' work at $500/month raises annual income to $4,250; nine months', to $5,000. While it seems to follow from this that a school-teacher paid on a nine-month basis (and lacking a working spouse) could pick up a free $500 over the summer, this type of potential for abuse is probably easier to curb in a binary system than in others. For instance, the system could be given a two-month memory for people with prior monthly earnings three times the benefit ($750) and a three-month memory where earnings have been four times the benefit rate. In any case, the motive for people in the so-called secondary labor force to bunch periods of work probably, again, serves the interests of productivity. In the abstract, a binary system is better at this than an NIT. In practice, the response capabilities of an NIT would probably be sluggish enough to eliminate the difference. (For either case, what is done about the existing unemployment insurance system becomes an important question.)

---

*You get aid or you don't.

Rather than protract this speculation on work incentives and patterns, let me now consider who is aided. The entire present AFDC population is aided, and, despite the $30-plus-30% reform, fewer than 20% of these families have a working member. A system which facilitates in-and-out movement, without elaborate means tests, might conceivably improve on this percentage, but I won't push the point. The fulltime working poor are not aided. However, this group has dropped from about 30% to 20% of the "officially" poor in the past decade or so, and it seems nearly certain that a substantial minimum wage increase will drop the percentage further over the next two years. The "working poor" residuum will increasingly be the irregularly employed. For these, a binary system provides a helpful income cushion.

However, one cannot avoid noticing that the work disincentives of such a system would be prohibitive in areas such as the rural south, where there is a great deal of "subminimal wage" employment. The system starts out looking very bad in such areas. This appearance may be mitigated if one thinks in terms of keeping a potential labor force in a holding pattern, pending economic development of the area. Alternatively, it may be argued that the aid recipient's new capability to withhold his labor will create sufficient labor scarcity to force up wages.

Unfortunately, at least three variables operate to limit faith in the second dynamic: elasticity of labor demand; the rate of local price inflation when a depressed area is flooded with "welfare" money; and the opportunities for unreported earnings, which will tend to keep wages down. In terms of the material well-being of the poor, considerable Federal expenditures might produce a "steady state" in which depressed areas were worse off than today, with an inflated consumer price index overbalancing income gains. However, it is not clear to me that this is more probable for a binary program than for an NIT.

In fact, I am not sure that a system with a super-confiscatory "tax rate" is any more--or less--absurd than any other formula for a guaranteed minimum income. The administrative requirements for quick instatement of eligibility and prompt, frequent payments are essential to any system upon which people depend for necessities. The further requirements imposed by an NIT formula entailing regular transactions with 24-30% of American families (i.e., those with total money income below $6,000 or $7,000) boggle the mind, and this is true however one apportions emphasis between the aims of meeting needs and preventing abuse. As for abuse, the incentives to under-report earnings are so much greater for the "negative" than for the "positive" income tax that this might be cited as a separate argument for the harm done to our thinking by "negative income tax" terminology.

Offhand, I see no point to developing my unthinkable variant in further detail although I would be happy to be talked into it. Its interest lies mainly in that it is the simplest "neutral" income maintenance system to administer. You qualify or you don't. You get a set amount or nothing except in the first sequential month of eligibility. There is no need to keep records on individual families for more than a few months. While the in and out traffic is heavy, this hardly compares with the traffic between benefit levels in an NIT. Yet it is clear that even this simplest of systems requires a large local administrative apparatus. It can be run mechanically, but not from a centralized computer installation.

An NIT system designed for centralized administration has been described by M.R. Asimov and W.A. Klein in a pamphlet that is in our poverty library.* I append the rules of this system (omitting the authors' interpolated comments). Final question: Are we kidding ourselves?

---

*M.R. Asimow and W.A. Klein, "The Negative Income Tax: Accounting Problems and a Proposed Solution," Reprint 67, Institute for Research on Poverty, U. of Wisconsin, 1970.

Rule 1. ***Definitions***

(a) "Net income" means income less allowable deductions. Net income may be either positive or negative.

(b) "Average net income" means the arithmetical average of net income for three consecutive periods. The average is computed by algebraically adding the net incomes for the three periods and dividing the sum by three. Average net income can be either positive or negative.

(c) "Breakeven point" is the amount of average net income which would reduce payments to zero.

Rule 2.

The accounting period (sometimes referred to as "the period") is one month.

Rule 3.

Net income of the preceding period will be reported every month. Payments will be made bimonthly.

Rule 4.

Payments will be based on average net income for the preceding three periods. Carryovers will be added to or subtracted from average net income as provided in Rule 9.

Rule 5.

Income and deductions will be reported under the same method of accounting used for positive income tax purposes. If no positive income tax return has been filed, the cash receipts and disbursements method shall be used. Net income from a trade or business (other than as an employee) may (but need not) be computed and reported once a year when the federal income tax return reporting such net income is filed (or would be filed if taxes were payable). Net income from a trade or business, if reported once a year, must be reported at the same time every year. Such net income shall be divided into twelve equal parts, one of which will be assigned to the period in which the calculation is made, and one of which will be assigned to each of the next eleven periods.

Rule 6.

Income or deductions resulting from:

(a) the computation of imputed rent from an owner-occupied dwelling;

(b) the computation of capital consumption income; or

(c) depreciation, depletion, or amortization of assets used in a trade or business or held for the production of income, and not otherwise accounted for under Rule 5,

shall be divided into 12 equal parts, one of which will be assigned to the period in respect of which the calculation is made and one of which will be assigned to each succeeding period until a recomputation is made. Such computations shall be made as of the beginning of the experiment and whenever a new unit is formed. Said computations shall be repeated not later than one year after the earlier computation on such date as the administrator shall determine (and on a corresponding date in succeeding years).

Rule 7.

A "positive carryover" is computed by subtracting the breakeven point from average net income (after any negative carryover is first subtracted from average net income).

Rule 8.

A "negative carryover" is created if average net income (after any positive carryover is first added to average net income) is a negative figure.

Rule 9.

A positive carryover is carried forward to the next succeeding period and added to average net income. If the sum again exceeds the breakeven point, the portion of the carryover not used to bring average net income up to the breakeven point shall be carried forward in the same manner to the next succeeding periods. A negative carryover is carried forward to the next succeeding period and subtracted from average net income. If the difference again is negative, the portion of the carryover not used to bring average net income down to zero shall be carried forward in the same manner to the next succeeding periods. No positive or negative carryover may be carried forward for more than 11 periods following the period in which it first arose. A carryover is deemed to arise in the most recent period of the three periods averaged under Rule 4.

Rule 10.

If a carryover is available from more than one preceding period, it shall be taken from the earliest available period.

Rule 11.

For purposes of computing average net income under Rule 4, the income and deductions of the preceding three periods will be the income and deductions of persons who were members of the unit in the preceding period. Payments will be based upon family composition of the preceding period.

Rule 12.

Upon initial enrollment, or whenever a new unit increases or decreases in size, carryovers arising from earlier periods will be computed by examining income and deductions for the preceding 11 periods, as though these rules had applied to such periods. In the event that a carryover arising in the preceding 11 periods cannot readily be allocated to the appropriate individual, it shall be allocated to the filer in the unit which reported the carryover.

POSTSCRIPT: A NOTE ON THE RELATIONSHIP OF A $3,000 ($250/MONTH) LEVEL OF SUPPORT TO 1972 AFDC BENEFIT LEVELS

The average family size for AFDC in 1972 was 3.54 people. The vast majority of these families were headed by the mother; 16% included an unemployed or incapacitated father. Average monthly payment per family was $191. Only in five states did the average payment exceed $250: Hawaii ($295), Mass. ($335), N.J. ($257), N.Y. ($272), Wisc. ($274). These states accounted for 19.6% of all AFDC recipients; 52% of the benefit recipients in the high-payment group lived in New York.

Six other states had average benefits over $230. These were: Conn. ($248), Ill. ($242), Mich. ($237), Minn. ($234), Pa. ($244), Vermont ($234). These states accounted for 20.3% of all AFDC recipients.

There do not appear to be large differences in AFDC family size from state to state. My sample calculations show the following state averages: N.Y. - 3.6 people, Mass. - 3.5, Wisc. - 3.4, Ala. - 3.5, Miss. - 3.7, La. - 3.8. (California, with an average family benefit of $211, had 3.3 people per family.) In the country at large, 30% of AFDC families had only one child, while 19% had 4 or 5; 9% had 6 or more.

Basic income support was supplemented in most states by food stamps, with an average value of $284/participant. Theoretically, this would have added over $1,000 to the income of the average AFDC family. Also, Medicaid expenditures were higher nationally than AFDC expenditure: $8.3 billion vs. $6.9 billion. Most of this aid went to public assistance recipients, of which AFDC recipients account for 75% but have lesser medical needs than the aged, blind, and disabled. If $3 billion in Medicaid went to AFDC families, that would up benefits to the average family by another $1,000. Thus, these two benefits might raise the monthly income of the average AFDC family from $191 to $358.

An additional point of interest is that AFDC payment averages rose only negligibly between 1970 and 1972: from $187/month to $191. The high-paying states showed no consistent pattern here. Benefits in Mass. increased from $257 to $335; New York's declined from $292 to $272.

Even ignoring inflation, it is clear that prevailing standards do not support the idea that a basic income of $3,000 is adequate for a family of four. An income maintenance program with this base clearly could not supplant supplementary assistance in most parts of the country. Because of huge recent rates of inflation in the cost of food staples, such as rice and beans, the Dept. of Agriculture calculates that a family with four people and an income of $3,000 needs to spend well over half of its income on groceries for an adequate diet.

"'Uncontrollable Expenditures':
The Case of Social Security"

by

Michael Sherman

This chapter was originally issued as a Hudson Institute Paper under the same title, dated March 10, 1975, HI-2216-D.

"UNCONTROLLABLE EXPENDITURES": THE CASE OF SOCIAL SECURITY

Introduction

A difficulty in a paper of this kind is the selection of an audience. If the study is pitched to the interests of those concerned broadly with anti-poverty policy and income redistribution, it risks being regarded by OASDHI experts as too sketchy on their program. Conversely, a paper written for these experts will be viewed by Hudson's generalists as telling them more about Social Security than they ever want to know, and scanting the overall planning problems of which SS is only a part.

A third alternative is to hunker down, as LBJ might have said, between the stools. I have tried to say enough about the program details to permit discussion by SS non-experts without swamping them. I have tried not to regurgitate the mass of numbers available elsewhere, but rather to indicate the sources for those hungry for a more statistical diet.

I. An Overview of the Problem

A. The Administration's View

It has become fashionable for budget analysts, from the OMB Director down, to stress the necessity of "getting a handle on the uncontrollables." Although the term is not used consistently or precisely, in general it reflects a heightened awareness that a large and increasing proportion of federal outlays are simply not amenable to major discretionary changes in the short run. In the current economic and political climate, it combines an ideological bias against large government spending (especially deficit spending) with a desire for greater flexibility in adjusting to an unforeseen stagflation. But any effort to provide a framework for analysis of this problem faces a double obstacle. First, special governmental attention to the issue is relatively recent: 1970 was the first year in which the federal budget breakdown deals directly with it. Perhaps because of this, no stable categories or concepts have been developed to analyze it: The OMB categories that are used change from year to year and make the problems of comparability very real. Secondly, there have developed a variety of schemes that compete with the categories that OMB is using at any time; and naturally, these yield differing notions of how much of the federal budget is uncontrollable as well as what to do about it.

We may begin with some account of those areas that are regarded by virtually all analysts as properly included in the uncontrollables. First, there are those outlays that flow from contractual and other legal obligations incurred in earlier years. Once the government has signed a contract, or obligated funds for any purpose, payments must be made as the terms of the commitment are met. An example close to home is Hudson's OEO Contract itself: Even if the agency had been dismantled completely, as sometimes seemed quite likely, the U.S. Government would have been required to meet the terms of the agreement. Other types of prior-year commitment include interest on the public debt, and obligations such as housing subsidies where the government has pledged to make payments to private parties or local authorities over a given period of years.

A more general and more serious issue is that in other cases the basic commitments themselves, as well as the need to pay for them, are equally uncontrollable by the annual Congressional appropriation process. This type of uncontrollability results not from specific policy decisions regarding an individual or company, but rather from the general authorizing legislation itself. Where the basic law stipulates a rate to be paid, or a set of conditions to be met for the eligibility to benefits (or both), the government's obligation takes on an open-ended character: that is, the financial requirements for any particular year are dictated not by a decision of the law makers, but rather by economic conditions (in the case of unemployment insurance and welfare), demographic factors (e.g., the number of people reaching retirement age in the case of SS) and so forth.

Obviously, in this second case the commitment itself is not literally uncontrollable: Congress could simply change the basic law, e.g., by saying that after a certain date benefits would be lowered even if the recipient met the conditions for eligibility.* But equally obviously, the political threshold for doing this is higher than for the approval or rejection of a one-year item. This is true not only in the general sense that people's expectations must be changed, but also specifically because a special initiative must be taken to bring the matter back within the appropriations process.

There are three basic sources of authority which affect federal spending: new appropriations authority which appropriates new money for the coming year; appropriations left over from previous years; and spending authorized directly, usually in previous years, by legislative action as opposed to the appropriations process. The latter two categories do not even come before the 13 Congressional appropriations-related committees and in 1974, for example, only 44 percent of Mr. Nixon's $268.7 billion proposal was in the first category: 14 percent of the total was in the second category, and 42 percent in the third.

---

*This section was written before President Ford proposed that in his FY1976 budget message, by "de-indexing" SS benefits.

If one defines the problem slightly differently, it becomes even more dramatic. Some analysts measure the level of uncontrollability by totalling areas in which there was a prior-year commitment or in which Congress would have to cross the entitlement threshold to make a change. If one accepted that definition, the problem at the beginning of the seventies looked like this:

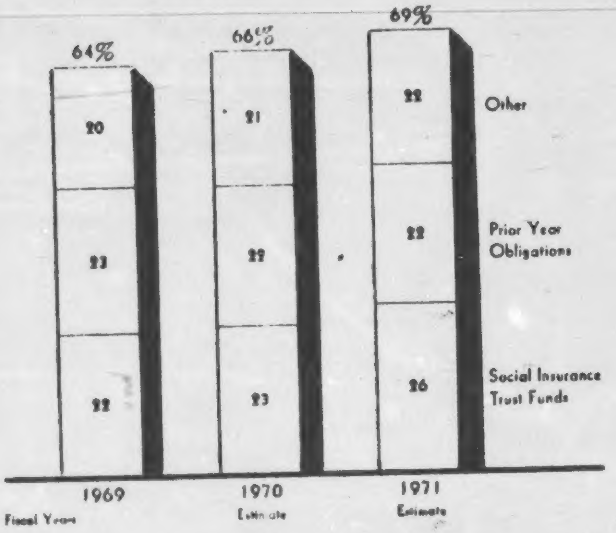
CONTROLLABILITY OF BUDGET OUTLAYS

[Fiscal years. In billions]

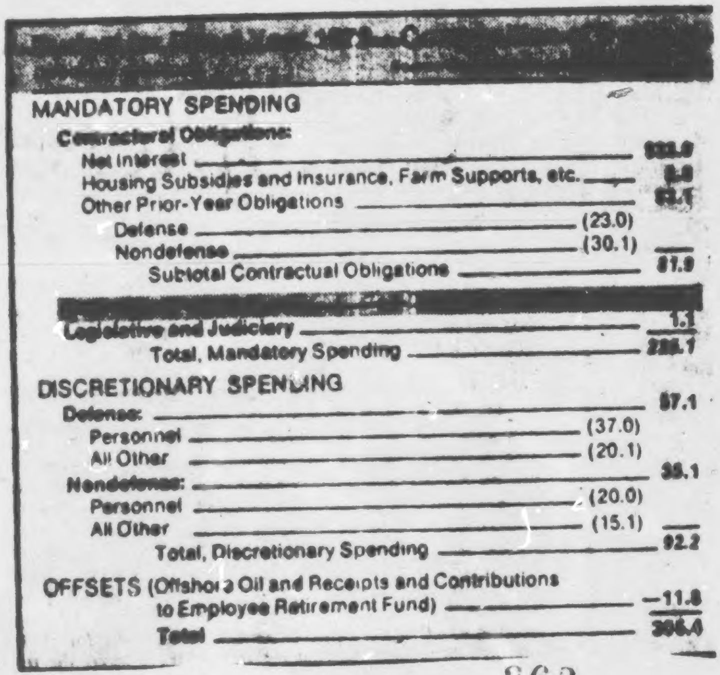
Controllability in 1971	1969 actual	1970 estimate	1971 estimate
Relatively uncontrollable outlays under present law:			
Open-ended programs and fixed costs:			
Social security, Medicare, and other social insurance trust funds under January 1969 laws	$39.8	$13.8	$46.9
Social insurance benefit increases recently enacted		1.8	4.6
Military retired pay	2.4	2.9	3.2
Interest	15.8	17.8	17.8
Veterans benefits: Pensions, compensation, education, and insurance	5.7	6.4	6.7
Public assistance grants (including Medicaid)	6.3	7.5	8.5
Farm price supports (Commodity Credit Corporation)	4.1	3.5	3.7
Postal operations directly related to mail volume	0.5	0.9	0.9
Legislative and judiciary	0.4	0.5	0.5
Other	1.5	2.2	2.2
Outlays from prior year contracts and obligations:			
National defense	25.5	25.5	23.7
Civilian programs	16.4	18.5	19.6
Subtotal, relatively uncontrollable outlays	118.6	131.3	138.4
Relatively controllable outlays:			
Proposed allowance for revenue sharing			0.3
Civilian and military pay increases		0.2	1.4
Postal rate increase		−0.2	−1.2
Other national defense	53.2	51.1	46.7
Other civilian programs	17.9	21.6	21.8
Undistributed intragovernmental transactions	−5.1	−6.1	−6.6
Total budget outlays	184.6	197.9	200.8

and compared with a 59 percent "uncontrollable" factor in the mid-60s, a percentage breakdown by this standard looked like this:

RELATIVELY UNCONTROLLABLE OUTLAYS
(PERCENT OF TOTAL BUDGET)



Using a similar measure, the level had risen by 1975 to 73 percent of federal spending.



[illegible]		
MANDATORY SPENDING		
Contractural Obligations:		
Net Interest		[illegible]
Housing Subsidies and Insurance, Farm Supports, etc.		[illegible]
Other Prior-Year Obligations		53.1
Defense	(23.0)	
Nondefense	(30.1)	
Subtotal Contractual Obligations		81.9
[illegible]		
Legislative and Judiciary		1.1
Total, Mandatory Spending		[illegible]
DISCRETIONARY SPENDING		
Defense:		57.1
Personnel	(37.0)	
All Other	(20.1)	
Nondefense:		35.1
Personnel	(20.0)	
All Other	(15.1)	
Total, Discretionary Spending		92.2
OFFSETS (Offshore Oil and Receipts and Contributions to Employee Retirement Fund)		−11.8
Total		305.4

B. Attempts to "Control the Uncontrollable," 1970-75

Not surprisingly, the history of attempts at control has been an effort by the Legislative and Executive branches to blame each other for the failures and to take credit for the successes, such as they are. A brief look at this history is instructive.

As noted above, it was at the beginning of the seventies that the issue began to draw special attention. From FY 1970 to 1971, the Nixon Administration's initial estimate was that relatively uncontrollable outlays would rise by $7.2 billion:

--up $5.9 billion for social security, medicare, and other special insurance programs financed through trust funds;

--up $1.9 billion for other charges that were unavoidable claims against the budget in the short run under requirements of existing law: primarily, interest on the public debt, public assistance and Medicaid, veterans compensation and pensions, and military retirement pay;

--down $0.6 billion for outlays arising out of prior year contracts and other commitments now reaching the payment stage.

In discussing methods of controlling government spending, the Administration took pains to emphasize that "in the longer run, control must be exercised initially in the authorization, reform and termination of programs by the Congress."* This "time-honored method" "anchored in the Constitution" and preferred by the Executive, was to deal with the problem of spending control through the limitation of budget authority, the power granted by Congress to enter into contracts or other commitments. In setting budget totals under that authority, of course, limits could be placed on:

---

*1971 Budget, p. 44.

(a) Obligations: the process of legally obligating the Government under the basic law, e.g., by signing contracts;

(b) Outlays: payments in fulfillment of the obligations already incurred; or

(c) Debt: the amount of all securities issued by the Treasury and certain other government agencies.

In 1968, the Congress had concentrated on the first item and enacted a reduction in agency obligations--reducing the rate at which contracts were signed, stretching out or deferring obligations wherever possible. For 1969 and 1970, attention shifted to the device of a ceiling on budget outlays. But in 1969, at the same time as it ruled that outlays must be held $6 billion below the initial budget request of $186.1 billion, the Congress excluded $93 billion worth of programs (about half) from its own ceiling. The largest components of the excepted half were social security trust funds, interest on the public debt, and special support for Vietnam operations. Again in 1970, "uncontrollables" were partially excluded from a Congressional outlay ceiling, in that a $2 billion maximum was set on the amount by which they could exceed the April 1969 estimates; and again the technique was destined to fail.

Initially, for FY 1970 the Administration estimated the ceiling at $195.7 billion (a nostalgically modest figure in light of the $300 billion-plus-sums of only five years later) which represented:

--a basic $191.9 billion ceiling

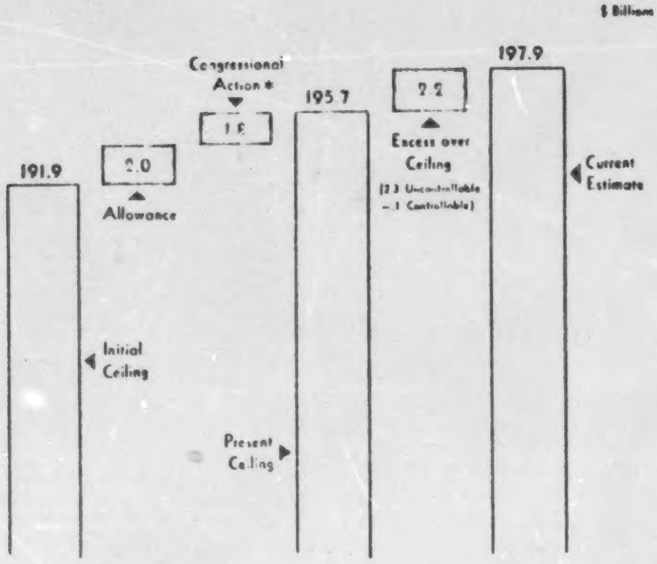
--an allowance of $2 billion for uncontrollable increases in specified programs, such as social security and interest;

--an additional upward revision of approximately $0.9 as a result of Congressional action during the first session of the 91st Congress; and

- a further revision based on proposals requiring congressional action during the second session, such as relatively uncontrollable increases for veterans benefits.

But a few months later the best estimate for that year was that the outlay ceiling would be exceeded by $2.2 billion, all of it attributable to increases in designated uncontrollable payments. The $2 billion allowance was characterized as "extremely inadequate," and the Administration knew exactly where to place the blame. In an attempt to hold outlays *below* the congressional ceiling--despite overruns in uncontrollable programs--the executive branch had taken actions during the summer to reduce military outlays by $3 billion. The Congress then several months later validated this action by reducing applicable appropriations

RELATION OF 1971 ESTIMATE TO 1970 CEILING



* $0.9 for Action in the First Session and $0.9 for Proposed Action in the Second

in a way that would cut expenditures by virtually the same amount. But, this action of the Congress correspondingly reduced the outlay ceiling. It erased the margin that could have made it possible for the executive branch to remain within the legislated ceiling. Aside from the uncontrollables, the Administration noted, outlays were running at a level "no more than $100 million below the ceiling...a leeway equal to one-twentieth of 1% of total budget outlays, hardly any margin at all."

RELATION OF 1971 ESTIMATES TO 1970 CEILING
(IN BILLIONS)

Initial congressional ceiling	$191.9
Allowance for uncontrollable items for which limitation is adjusted	2.0
Congressional action relative to the April estimates:	
Action in first session:	
In response to Administration plans	−2.5
Other congressional action	+3.4
Anticipated action in second session	0.9
Ceiling under present law	195.7
Current estimate	197.9
Current estimate in excess of ceiling under present law	2.2
Shortfall in uncontrollable allowance	2.3
Remaining margin on other spending	0.1

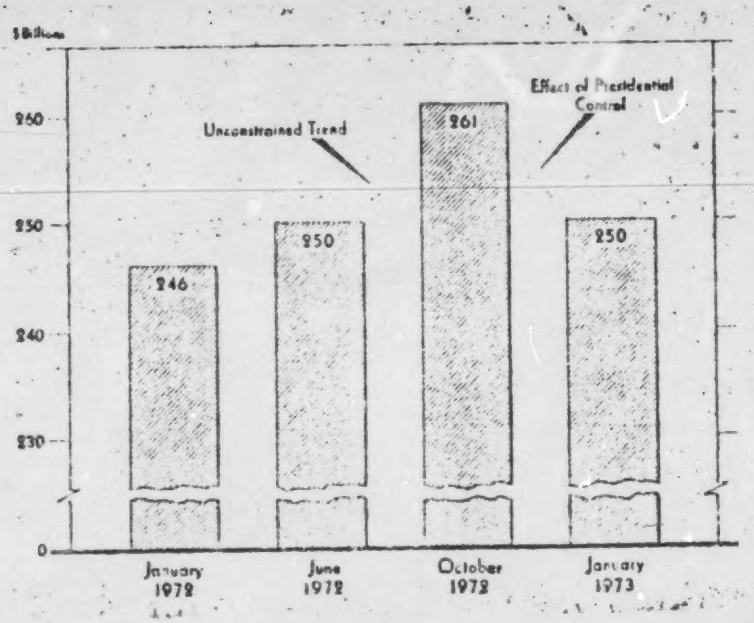
From the OMB perspective, the experience of these early efforts to control the uncontrollables had isolated three key problems. First, the coordination of individual actions: The Congressional specification of priorities, as reflected in the attempt at a ceiling on outlays, could not be effective if the Congress failed to coordinate individual appropriations and exceeded its own guidelines. Secondly, the imbalance of revenues and spending: according to OMB, Congress lacked an 'organizational mechanism'--or, implicitly, the will--to permit a careful consideration of the balance between receipts and outlays. Thirdly, insufficient allowance for uncontrollables: any outlay limit would need 'sufficient dollar flexibility' to make goals attainable while providing for outlays beyond the short-term control of both the Executive and the Congress.

This little set of homilies, of course, was little more than an exercise in the traditional buckpassing between the two branches of government. The pattern remained consistent over the next two years: the Legislature doling pork from the barrel, the Executive taking credit even for those entitlement programs which it opposed, while at the same time seeking "to uncover every possible way in which the prospective surge in spending could be controlled. No saving....too small, and no idea too unconventional."* In 1973 the tools in reduction of net outlays included the disposal of additional materials from the Government stockpile and the development of non-Federal financing for various credit programs (mainly through the sale of loan and mortgage paper). Deferrals of certain Federal payments beyond the dates that had originally been planned were also employed, and at the end of fiscal 1973 the following achievements were claimed:

---

*FY 1974 Budget, p. 48.

THE RESULT OF CONTROLLING OUTLAYS
(FY-1973)



But what is striking about these years is that the attempts to deal with the uncontrollables, certainly with the entitlement programs, had very little to do with the real issues. The numbers kept going up,

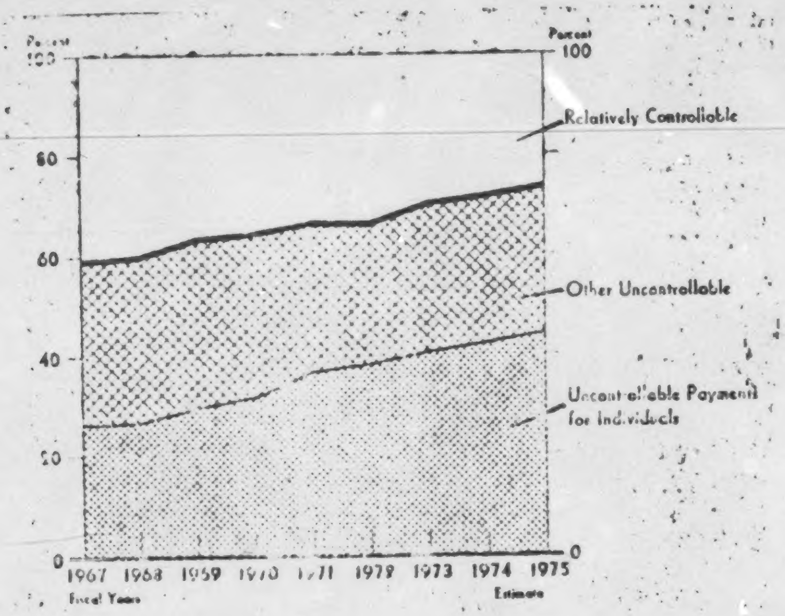
CONTROLLABILITY OF BUDGET OUTLAYS
(IN BILLIONS OF DOLLARS)

Description	1972 actual	1973 estimate	1974 estimate	1975 estimate
Relatively uncontrollable under present law:				
Social insurance trust funds	61.7	71.7	80.4	[1] 87.7
Interest	20.6	22.8	24.7	25.4
Other open-ended programs and fixed costs	37.1	46.7	47.5	50.8
Subtotal, open ended programs and fixed costs	119.3	141.3	152.6	163.8
Outlays from prior-year contracts and obligations	39.2	40.6	49.2	132.5
Relatively controllable outlays	81.2	75.8	75.2	
Undistributed intragovernmental transactions and allowance for contingencies	−7.9	−7.9	−8.4	−8.3
Total budget outlays	231.9	249.8	268.7	288.0

[1] Estimated on full-employment basis

the trend-lines climbing,

CONTROLLABILITY OF OUTLAYS
(PERCENTAGE)



but to borrow Jane Newitt's term, both the rhetoric and the dollars were highly inflated. The techniques of nominal budgetary ceilings could not possibly succeed without some attention to the basic social forces that were driving the uncontrollables up.

C. The Current Confrontation

In the last couple of years, the Administration has begun to move beyond the game of blame-the-Congress and to confront the more basic issues of social policy. We shall consider this in more detail below, but here it is worth speculating about why the shift happened when it did. To some extent, the accumulating concern may simply have passed an unacknowledged threshold. When such measures as a 20 percent increase in Social Security (following a 10 percent and 15 percent increase in the two previous years) drove the uncontrollables close to 75 percent

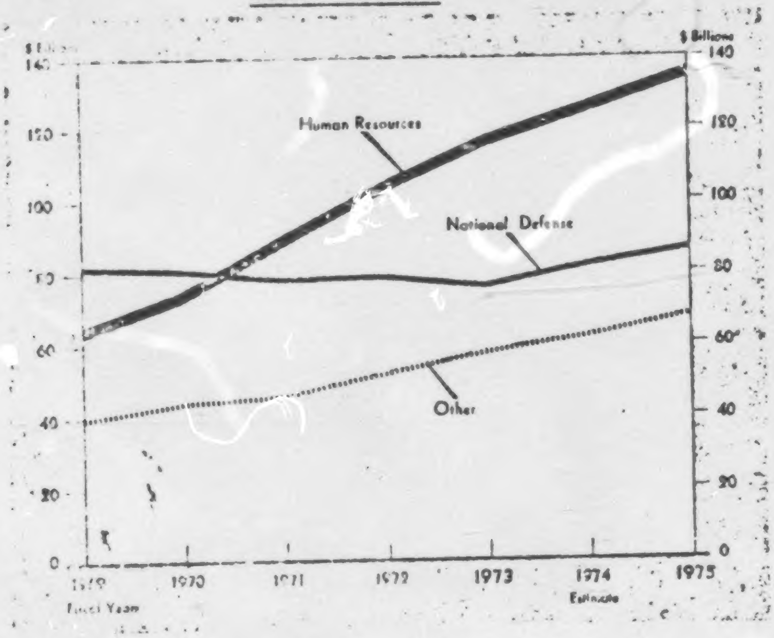
1975 ESTIMATES ON UNCONTROLLABLES
(PERCENTAGE)

PERCENT OF TOTAL OUTLAYS	1967	1968	1969	1970	1971	1972	[illegible]973	1974	1975
Relatively uncontrollable under present law:									
Open-ended programs and fixed costs:									
Payments for individuals	26.4	26.6	29.8	31.7	36.6	38.1	40.4	42.4	44.1
Other	9.5	9.6	10.6	11.2	10.8	11.1	13.7	13.2	12.2
Total open-ended programs and fixed costs........	35.9	36.3	40.4	42.9	47.4	49.3	54.1	55.6	56.3
Outlays from prior-year contracts and obligations....	23.4	23.7	22.7	21.1	19.0	16.9	16.1	16.2	17.2
Total relatively uncontrollable outlays..........	59.3	59.9	63.1	64.0	66.4	66.2	70.1	71.8	73.5
Relatively controllable outlays......................	41.8	41.1	38.0	37.3	34.9	35.0	31.0	29.5	27.7
Undistributed employer share, employee retirement......	-1.1	-1.0	-1.1	-1.2	-1.2	-1.2	-1.1	-1.3	-1.2
Total budget outlays	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

of the federal budget; and 90 percent of the increase in the 1947 budget was 'uncontrollable' under present law; and the 1975 budget, projected in 1970 to be $244 billion with $22 billion left over for new initiatives, had broken $300 billion by a long way, perhaps some kind of unperceived warning bell simply went off.

A second factor in 1974-75 was the taking effect of the 1972 legislation that indexed social security and veterans benefits to a Consumer Price escalator. This further dramatized to legislators the extent to which increases in these programs were out of their normal appropriations control.* A third factor was the more vocal chafing of the middle income wage earners who bore most of the burden for the exploding social programs. Fourth, the Administration felt that military preparedness had begun to suffer

BUDGET TRENDS



---

*A 1969 indexing formula for federal civilian retirees, now understood to be poorly conceived, had attracted little notice. See The New York Times, February 16, 1975, p. 1.

intolerably at the hands of these programs. As a percentage of GNP, military expenditures had dropped since 1969 from 8.9 to 5.9, with projections to 1979 showing an even wider divergence; and those increases that had occurred within the defense budget had been almost completely devoted to military pay and price allowances.

And finally, of course, the further softening of the economy had made the bills for the uncontrollables harder to pay out of any area of the nation's business. This is a point to which we shall return, as it seems to be the leading edge of the problems that could confront the social welfare programs in an economy which is no-growth either by accident or design.

There can be little doubt that the 5-year projections presented below reinforced the Administration's determination to make 1976 what Secretary of Defense Schlesinger called "a turnaround budget."

PROJECTED FULL-EMPLOYMENT OUTLAYS
FOR CURRENT PROGRAMS, 1975-79
(IN BILLIONS OF DOLLARS)

Major category[1]	Estimate			Percent change 1975-79
	1975	1976	1979	
National security and international affairs	91.8	99.1	111.1	21
Domestic affairs	192.6	212.7	261.3	36
Human resources	149.9	161.8	204.2	36
Physical resources	24.9	28.6	29.0	16
General Revenue Sharing	6.2	6.3	6.6	8
Other	11.6	14.7	21.5	85
Net interest	22.0	22.5	22.5	2
Employer share, employee retirement	−3.6	−3.7	−4.1	14
Total, full-employment outlays	302.8	329.4	390.8	29

[1] These broad categories are defined to include the following functions: National security and international affairs includes national defense and international affairs and finance. Human resources includes education and manpower; health, income security, and veterans benefits and services. Physical resources includes agriculture and rural development; natural resources and environment, commerce and transportation, and community development and housing. Other includes space research and technology, general government, and undistributed allowances and adjustments. Net interest includes the interest function less interest received by trust funds.

CONTROLLABILITY OF BUDGET OUTLAYS
(IN BILLIONS OF DOLLARS)

Category	Estimate		Percent change from 1975 to 1979
	1975	1979 [1]	
Relatively uncontrollable under present law:			
Open-ended programs and fixed costs:			
Payments for individuals:			
Social security and railroad retirement	67.2	94.1	40
Medicare	14.2	23.0	62
All other payments for individuals	52.8	64.7	22
Subtotal, payments for individuals	134.2	181.8	36
Other open-ended programs and fixed costs	37.2	31.7	−15
Total, open-ended programs and fixed costs	171.4	213.6	25
Outlays from prior-year contracts and obligations	52.3	181.4	33
Relatively controllable outlays	84.4		
Undistributed employer share, employee retirement	−3.6	−4.1	14
Total budget outlays	304.4	390.8	28

---

[1] The assumption to continue General Revenue Sharing after the law expires in 1977 allows discretionary control in the 1979 program level. Therefore General Revenue Sharing is included in relatively controllable outlays in 1979.

For these dramatized the fact that even in a relatively sound economy, some crucial guns-or-butter choices were going to have to be confronted.

D. An Alternative Overview

Against this background of frustration in the Executive over its inability to control the scale and direction of federal spending, perhaps it is not surprising that in fiscal 1975 and 1976 some new initiatives were forthcoming. But before examining them and their implications for social security, let us look briefly at a competitive framework offered by the Brookings Institution considering the problem of uncontrollables. In particular, it shows how a different definition of the uncontrollable affects one's view of policy options. In its analysis, Brookings uses a much narrower concept of uncontrollability. Under the rubric of 'Mandatory expenditures,' this analysis parallels the OMB categories of "open-ended programs and fixed costs;" it includes programs in which recipients are entitled to certain formula benefits, such as Social Security; in which outlays are fixed under a previously enacted law, such as general revenue sharing; or in which current outlays merely satisfy certain contractual obligations already entered into, such as the interest on Treasury bonds. Excluded from the Brookings category, however, are OMB's outlays stemming from prior-year contracts and obligations. Presumably, the argument for this exclusion is that while it allows Treasury bond interest determined in prior years to be included as mandatory, other kinds of multi-year agreements are technically governed by the annual budget cycle and funded on a year to year basis, and technically could be cancelled by the Congress. The utility of this distinction is questionable. While in a particular year it might be feasible for the Congress to cancel a particular contract,* in general one cannot run a government that way. But the analytical effect of the distinction is that whereas the Republican Administration saw 73.5 percent of the 1975 total as relatively uncontrollable, the Democratic-Administration-in-Exile arranges the numbers so that only 55 percent of federal spending is mandatory.

There has been some shifting on the question of the borderline case of pay increases, which affects these percentages slightly. In 1974, pay increases were considered uncontrollable by OMB; in 1975, they had adopted the Brookings view of these as discretionary, setting the stage for the 5 percent limitation we shall discuss below. For the moment, the significance of this shifting is how often the whole problem of uncontrollability resolves itself into a question of political will; and given the prevailing

---

*Possibly incurring termination costs and thereby reducing the saving.

CHANGE FROM PREVIOUS YEAR IN FEDERAL BUDGET OUTLAYS FOR DISCRETIONARY PROGRAMS, TWO DIFFERENT CLASSIFICATIONS OF FEDERAL PAY INCREASES, FISCAL YEAR 1975

CLASSIFICATION OF PAY INCREASE AND CATEGORY OF OUTLAY	CHANGE	
	AMOUNT (MILLIONS OF DOLLARS)	PERCENT
Pay increases considered relatively discretionary		
Defense, space, foreign affairs	6,593	60.5
Nondefense	4,302	39.5
Total	10,985	100.0
Pay increases considered mandatory		
Defense, space, foreign affairs	4,893	56.9
Nondefense	3,702	43.1
Total	8,595	100.0

ESTIMATED CHANGE FROM PREVIOUS YEAR IN FEDERAL BUDGET OUTLAYS FOR MANDATORY AND DISCRETIONARY PROGRAMS BY MAJOR CATEGORY, FISCAL YEAR 1975

CATEGORY	MANDATORY PROGRAMS		RELATIVELY DISCRETIONARY PROGRAMS	
	AMOUNT OF CHANGE (MILLIONS OF DOLLARS)	PERCENT CHANGE	AMOUNT OF CHANGE (MILLIONS OF DOLLARS)	PERCENT CHANGE
Defense, space, foreign affairs	604	10.8	6,593	7.9
Cash income maintenance	13,736	16.3	0	0.0
Helping people buy essentials	3,764	14.5	352	11.5
Aid for Social programs	192	6.0	273	1.9
Investment in physical environment	0	0.0	2,133	14.0
Revenue sharing	84	1.3	0	0.0
Direct subsidies to producers	-434	-13.3	-473	-34.6
Net interest	647	3.0	0	0.0
Other programs	297	16.5	1,806	9.5
Financial adjustments	0	0.0	211	1.5
Total	18,890	12.4	10,895	8.9

activist view of Brookings and its special interest in expanding social benefit programs, one may fairly speculate that this influenced its choice of a framework. The acceptability of proposals for change in national priorities is a function, among other things, of the flexibility of the budget as an instrument of politics and policy. In using the narrower concept of uncontrollability, the Brookings analysts are able to 'find' $52.3 billion, not necessarily all free for new initiatives, but much freer for adjustments than if it were off-limits in the uncontrollable category. Depending on one's satisfaction or lack of it with the state of the union, one will be more or less motivated to discover areas of possible change. And thus the numbers game of budgetary exegesis appears clearly as what it is and what it should be: a debate about politics, not economics; about governmental activism vs. restraint; about deficit financing vs. balanced budgets; about such traditional trade-offs as guns vs. butter; in other words, about the highest questions of national policy.

In theory, one could have an activist Executive and a Congress bent on budgetary restraint. While there has been some sentiment in the Congress for this, it is in the nature of the beast that it should promise as much as looks reasonable, and then add a few percent. So in fact, the past few years* have been characterized by an Administration fighting a losing battle against the expansionist forces in the Democratic Congress and trying to turn these losses into political gains. The Social Security case in 1974 was typical: the Congress recommends a huge increase, the Administration a smaller one, the settlement is made in the upper half of the spectrum and the President maintains the rhetoric of fiscal restraint while taking political credit for the benefit hike. Thus after the passage of the 1972 legislation approving the 1974 increases which Mr. Nixon had opposed, the SSA's notification was accompanied by a friendly "Message from the President."

It may be, however, that those days are over, at least for a while. In his 1976 budget message, President Ford has proposed a limitation to 5 percent of increases in entitlement benefits that would have been almost double that under the CPI escalator of current law; at the same time, he proposed roughly a 10 percent increase in the defense budget. Admittedly, this will barely enable the Pentagon to keep up with inflation, which it has not been doing in many recent years.* Nonetheless, at least for this fiscal year, a guns-or-butter choice has been made largely on the side of guns. It remains to be seen whether the President can make it stick.

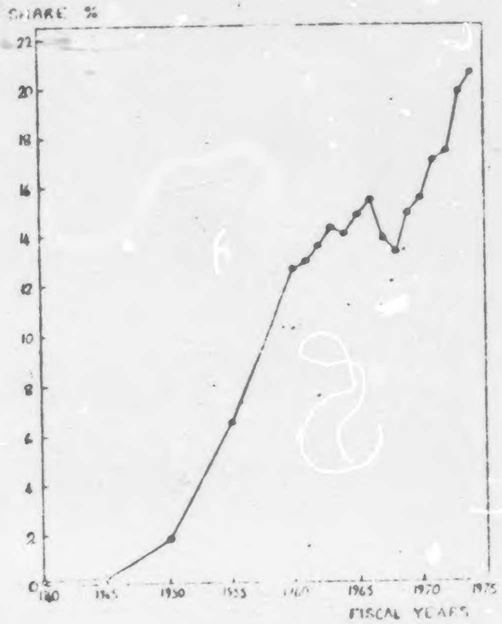
---

*cf. Jane Newitt, Rhetoric and Dollars, HI-1921-P.

II. Social Security and Uncontrollability

A. The Competing Goals of Social Security

This section places SS in the context of the foregoing debate. But first, one must deal with the notion, implied in much of the Administration's rhetoric over the past few years, that sheer size can qualify a program as "out of control." By any variation of this standard, SS is huge. In absolute dollars, its benefits have grown from $26 billion in 1969 to $70 billion for 1976, estimated to approach $80 billion by 1977 and $100 billion by 1980. As a share of total budget outlays, it looks like this



---

*As noted below, SS benefits have outpaced inflation.

and as a percentage of federal budget recei[illegible], it has doubled since 1960:

FEDERAL BUDGET RECEIPTS, BY SOURCE
FISCAL YEARS 1960, 1970, AND 1975

	1960		*1970*		*1975*	
Source	*Amount*	*Percent of total*	*Amount*	*Percent of total*	*Amount*[a]	*Percent of total*
Individual income taxes	$40.7	44.0	$ 90.4	46.7	$129.0	43.7
Proposed legislation	...	...	...	...	(−1.9)	...
Corporation income taxes	21.5	23.2	32.8	16.9	43.0	14.6
Proposed legislation	...	...	...	...	(−2.0)[b]	...
Social insurance taxes	14.7	15.9	45.3	23.4	85.6	29.0
Excise taxes	11.7	12.6	15.7	8.1	22.4	7.6
Proposed legislation	...	...	...	...	(5.0)[b]	...
All other	3.9	4.2	9.5	4.9	15.0	5.1
Total	92.5	100.0	193.7	100.0	295.0	100.0

Even relative to inflation, the figures are striking: between 1970 and 1975, average payments per SS beneficiary have increased 22 percent in constant prices--that is, after adjustment for the 38 percent CPI increase.

But as Burke noted in the prefatory quote, there is a principle of selection at work. A spending program is "out of control" when it is costing more than the society thinks the achievement of its goals is worth. A consensus on when this condition exists is difficult, perhaps impossible, to attain. Nonetheless, at least for purposes for analysis, it must be attempted. For confusion about the goals of the Social Security system is at the heart of many disagreements over whether it is too big, too small, or out of control.

It is reasonable for the goals of a program to change over time as the society and the economy change around it. But it is useful for a moment to examine the goals with which the Social Security system started. While it is true that OASDI was born in the Depression, an overconcentration on this fact has led some recent observers to go astray. By the 1930s, American society had moved a long way toward the urban, industrialized culture it has become. Combined with medical advances, this meant that the aged in the United States had a higher life expectancy, a smaller family to support them in their old age, and a lower premium in the labor market. True, the Depression wiped out savings, and also created a larger pool of younger unemployed that increased pressure to push the aged out of the labor force sooner, but the basic conditions existed by the 1930s to require some kind of social security program even without the Depression. Labor force participation rates for elderly males had dropped from 68 percent in 1900 to 58 percent in 1930. Given the economic conditions of the day, however, the program designed in the thirties was much more a stopgap measure than one designed to deal with the long-term trends. It was conceived as a floor to provide partial protection for the aged against the loss of income incurred by a retirement now thought more desirable by society. But it was also conceived as providing benefits tightly related to payments, thus collected as an earned right and paid without a means test to determine 'need' at the time of collection. The question of need was addressed by the parallel passage of a means-tested Old Age Assistance plan to cover those who remained needy even with social security, private pension and other benefits.

Even by 1940, however, when the first benefits were paid to retirees who had paid almost nothing into the kitty, this line was blurred. And even though there was no means test, an income-redistribution function was present, in that benefits were scaled higher (relative to contributions) for those at the lower end of the wage scale. But although the theoretical aim of what Hollister has called the 'priests of Social Security' was for an earnings replacement plan, in practice this pure aim was compromised at an early stage. It was clearly intended that the insurance program should eventually meet the needs of most of the aged, while the assistance program should be limited to those residual aged poor who had unusual need or for some reason were excluded from the social insurance system.* But in fact, as the insurance program developed, it became an effort to achieve both the earnings replacement and anti-poverty goals, with each proving a drag on the ability to achieve the other.

This excursion into the rhetoric of SS origins is important when one considers the current debate. For it points up the ironic situation in which today's Social Security priests are forced by the logic of their own original conception and by increasing concern over the uncontrollability of their program, to play down the achievements of SS in alleviating poverty. If they accept credit for the anti-poverty successes of their program, then they must also take blame for its failures in that regard, pitch it more to income redistribution, and dilute the social insurance/earnings replacement aspect. Let us look more closely at this dilemma and the solution that seems to be appearing in recent years.

B. Social Security as An Anti-Poverty Program

On the plus side of the "SS as anti-poverty" ledger is the fact that in 1972 for the first time since the late sixties the number and percentage of Americans poor declined, and that this was largely a reflection of the decline in the percentage of older Americans poor from 25.3 to 18.6. The aged poor numbered 4.8 million in 1969, 3.1 million by 1973, a 35 percent reduction.* The 1972 amendments were defended by SSA partly on the ground that they would "remove nearly 1.9 million Americans, and without the necessity of resorting to welfare." In all, more than 12 million people are protected from poverty by Social Security. The system constitutes the economic mainstay for the vast majority of older Americans: approximately two-thirds of retired single workers and half of aged couples depend upon SS for more than 50 percent of their income. SS benefits are almost the sole reliance (over 90 percent of total income) for 32 percent of retired single workers and 14 percent of retired couples. Surprisingly, only 21 percent of the couples receiving SS benefits, and 8 percent of the non-married beneficiaries also receive private pensions. Even when benefits from other Federal programs are considered, only 30 percent of the couples and 14 percent of other beneficiaries have a second pension.

---

*Joseph Pechman, et.al., Social Security, (1968), p. 31.

On the other hand, the reduction of the percentage poor of the aged to 18.6 did not obscure (or at least, did not alter) the fact that of the total population, only 12 percent were poor. And if one counts the 2 million elderly with sub-poverty-line incomes living in non-poor households, the percentage poor of the aged could be as high as 25 percent. In 1972, 16 percent of SS beneficiaries remained poor despite their benefits. Also, as noted below, a great many of the aged remain in the labor force because they would fall into poverty, even with SS benefits, if they were to stop working. And finally, although we cannot attempt an evaluation here, it should be noted that a respectable if controversial body of economists feel that SS is among programs that "appear on balance to transfer income from relatively low income classes to middle and upper income classes."*

---

*2 million aged have 'sub-poverty-line incomes' but live in non-poor households.

Thus in recent years, it has become increasingly difficult for the priests of SS to take credit for its anti-poverty successes without being charged with its failures. And increasingly, the response has been to revert to the early rhetoric, by insisting on the purity of the earnings replacement concept (social insurance) as against the public assistance concept (welfare) of SS. This effort has been greatly simplified by the Supplemental Security Income Program which began last year.

Beginning in January 1974, the existing adult welfare programs (aid for the aged, blind, and disabled) were replaced by SSI, administered by the Social Security Administration but financed out of general revenues. A carryover from the aborted attempt at a Family Assistance Plan, SSI builds a Federal floor under the income of all older Americans. In July 1974, an eligible** person with no other income received $146 a month and an aged couple $219. Additionally, the first $20 of social security or other income is disregarded in determining eligibility for the supplemental payments. The effect of these two changes is to assure most elderly single persons that their monthly income will be at least $166, $238 for couples. States wishing to pay an aged recipient in addition to the Federal supplemental payment are free to do so, although this might cost the recipient his eligibility for food stamps or surplus commodities. About 25 percent of SS recipients quality for SSI, and 71 percent of all SSI eligibles will receive SS; 18 percent of the aged get both.

---

*Cohen and Friedman, p. 48.

**Eligibility maximums are resources of $1500 per individual, $2250 for a couple, exclusive of house, car and personal possessions.

From the viewpoint of the Social Security Administration, SSI is a kind of stepchild, reluctantly administered by SSA over its fears that the social insurance programs would be tainted. But SSA did win the crucial point that SSI would be financed out of general revenues, and not by the payroll tax. In effect, two separate systems have been formulated, possibly with the effect of liberating SS from any anti-poverty responsibilities at all. From the perspective of all concerned--SS priests as well as the poor and threatened-by-poverty--this is a desirable development. For even with the support of SSI, the Social Security program is a blunt instrument for dealing with poverty per se. Apart from the dubious criticism that an anti-poverty program must be purely that,* several weaknesses remain.

First, any anti-poverty function of SS is compromised by tying the benefit structure to past earnings. Most obviously, if a person were poor before he turned 65 and his SS benefits were less than 100 percent of his earlier earnings, he would remain poor after 65. In fact, benefits are usually less than 50 percent of earnings just prior to retirement.

Second, the anti-poverty function of the SS system is further compromised by the disincentives it provides for SS beneficiaries to work. We shall return to this subject, but note here that this may happen in three ways: (1) the benefits make retirement more attractive; (2) OASDI may influence retirement policies by management in the private sector, e.g., by making it easier to justify forced retirements; (3) the so-called retirement test, under which a retiree forfeits 50 cents in benefits for every dollar he earns over the maximum, is of course equivalent to an income tax of 50 percent on that range of earnings. (As late as 1970, the beneficiary could lose one dollar in benefits for every dollar he earned over $2880--a 'retirement test' with the bizarre result of an income tax of 100 percent within the affected range.) Moreover, as the following table shows, the difference in 1972 between poor and non-poor aged families is importantly, perhaps crucially, influenced by the difference in earnings; and this is true, although less markedly so, for poor individuals.

---

*A.B. Laffer and R.D. Ranson, "Some Economic Consequences of the U.S. Social Security System," paper to the National Tax Association Conference, Toronto, September, 1973.

SOURCES OF INCOME FOR FAMILIES WITH HEAD OF HOUSEHOLD 65 AND OVER AND FOR UNRELATED INDIVIDUALS 65 AND OVER, 1972

INCOME	ERN ($)	SS ($)	DIV ($)	PA ($)	UI ($)	PRV ($)	ATI ($)
				FAMILIES			
Below $2,500 (N = 1,132,000)	131	1,569	131	218	131*		2,179
Above $2,500 (N = 6,458,000)	4,461	2,468	1,329	95	475	664	9,492
All families (N = 7,590,000)	3,759	2,340	1,170	84	418	585	8,356
				INDIVIDUALS			
Below $2,000 (N = 2,238,000)	28	1,050	70	154	70	28	1,400
Above $2,000 (N = 3,943,000)	892	1,688	1,313	94	328	375	4,690
All individuals (N = 6,181,000)	586	1,447	827	103	241	241	3,445

SOURCE: Unpublished tabulations from Current Population surveys conducted by the United States Bureau of the Census.

DEFINITIONS: ERN: average income from earnings, SS: average Social Security and railroad retirement income, DIV: average income from dividends, interest, net rental, estates, trusts, net royalties, PA: average income from public assistance or welfare payments, UI: average income from unemployment compensation, workmen's compensation, veteran's benefits, government employee pensions, PRV: average income from private income from private pensions, annuities, alimony and so on, ATI: average total income.

NOTE: Of those 65 and over, 69 percent were in families, while 31 percent were unrelated individuals.

* Since the number of families receiving PRV income in this income class is less than 75,000, total UI + PRV is given.

Finally, the ability of social security to function as an anti-poverty measure is sharply compromised by its being financed out of a tax that is highly regressive. Even by itself, the fact that the tax rate is the same for all income levels means that the low income worker pays a larger percentage of his income than his richer counterpart. But when this unequal equality is combined with the ceiling which exempts all income over $14,100, it becomes obvious that the tax is regressive: a man earning $100,000 a year pays the same amount of payroll tax as the man earning $14,000, and for very low income workers, the absence of deductions (for example, for family size) means that many will pay more in payroll tax than in income tax. Indeed, it has been argued by theoreticians of both the left and right* that although the employee appears to pay only half the total of the revenue raised by the payroll tax, in fact he pays all of it. This burden-shifting may occur in two ways: since the employer tax raises the price of a manhour of labor, the employer will hire the same amount of labor as he would if there were no tax only if the workers will accept a wage lower by the amount of the tax. Or the employer may raise the price of the goods produced, so that labor comes to bear the cost of the tax. If one accepts either of these arguments, half the population pays more in payroll tax than in income tax; and the worker earning below $3500, paying no income tax, has seen his federal taxes rise by 22 percent since 1969 by means of increases in the SS payroll tax.

From the perspective of the poor, a promising reform is the proposal that the payroll tax paid by low-income workers be considered an offset against their federal income tax. Depending on the formula, many poor and near-poor paying low or no income tax, would receive a payment from the government in a kind of combination NIT plan. In any case, the trend embodied in SSI towards two separate systems and the "withering away" of the anti-poverty function of SS is a desirable one from the perspective of the poor. Certainly this year's effort by the Administration to "de-index" SS shows that it may be unreliable in the future as a vehicle for those seeking to escape poverty.

---

*E.g., Brittain on the left, Friedman on the right.

C. Social Security As An Earnings Replacement Program

The other side of the coin is that the earnings replacement function of SS was impaired by the redistributive features of the system: Although all workers receive more in benefits than they have ever paid in Social Security tax (most estimates are that the worker receives a return of about 4 percent per annum compounded on the taxes he has paid), the ratio of benefits to past payroll tax paid is generally higher for low-wage earners. But even when the earnings replacement function is unconstrained by the anti-poverty goal, at least three major questions remain.

First, there is the problem of selecting the standard with which to measure adequacy of earnings replacement. Is the task of earnings replacement, whether from public or private sources or some combination of the two, to match the retiree's preretirement income? Even to exceed it, if that income fell above the poverty line but below the adequacy line, however defined? If the idea is to match it, should "it" be the standard in the year immediately prior to retirement; a standard based on the highest year's earnings; or a standard based on average earnings over some period of years? Several formulas have been suggested: the highest earnings in ten of the fifteen years immediately prior to retirement, the highest in any ten years, and so forth.

A second question is that having selected the appropriate pre-retirement living standard, one must determine the percentage of it that the retirement income is expected to replace. Taking into account such factors as the preferential federal income tax treatment for older persons, the cessation of any further need to save for retirement, and the absence of work-related expenditures, it does not seem necessary to seek a replacement of 100 percent of the pre-retirement earnings. What is adequate? For an elderly couple with two children, the BLS estimates an adequate replacement rate at 51 percent; Peter Henle places it at 70-78 percent. In a study for the Association of Retired Teachers, James Schulz has used an equivalent income scale developed by the Bureau of Labor Statistics for families of different size and age to estimate the appropriate earnings replacement rate at 60-65 percent. This includes the tax savings as estimated at 4-6 percent, the allowance for discontinuance of retirement savings at 19-21 percent, and the reduced expenditures at 12-14 percent.

No matter which of these standards one accepts, some idea of the task which lies ahead may be indicated by the following: In 1968 it was estimated that a single retiree who had worked in manufacturing would qualify for SS benefits equal to about 29 percent of his earnings the year before retirement. By January 1972 this was estimated at 34 percent and by July 1974, 38 percent. Depending on one's viewpoint, one may be struck either by the rise in replacement ratio of 30 percent since 1968, or by the huge gap between what SS provides and what many believe is an adequate standard. Also, the variation according to individual circumstances is striking. In 1972, if a person was married, 65, with a 62-year-old wife and had had a low earnings history, SS benefits would replace 68 percent of his income.

Social Security Benefits As A Percent Of Earnings,
January 1, 1972

	Low Earnings	Retail Trade	Services	Manufacturing	All Private Industry	Construction
Single, 65, Male	45	[illegible]	[illegible]	34	32	24
Single, 65, Female	46	44	35	35	33	24
Single 62, Male	35	42	[illegible]	26	25	18
Single, 62, Female	[illegible]	[illegible]	27	27	26	19
Married Man, 65 Wife 65	68	64	[illegible]	51	48	35
Married Man 65 Wife 62	62	57	47	47	44	32
Married Man 62 Wife 62	51	48	[illegible]	38	36	27

But if this man was single, aged 62 with a construction work history, benefits would have replaced only 18 percent of his pre-retirement earnings.

Finally, there remains the question of how much of our responsibility to the aged must be borne by Social Security. While it is true that many retirees have private pensions to supplement their SS benefits, more do not. Overall, as Henle has put it,

> "Public and Private Retirement systems in the United States have matured to the point that taken together they can provide a married couple a level of living close to what they had before retirement. However, most retirees do not find themselves in a position to take advantage of this possibility, either because they are not covered by a private industry pension or are forced to apply for public (Social Security) benefits before they are 65 thus reducing their annuity under OASDHI."*

In addition to the absence of universal participation by workers in private pension plans, there are the problems of the disparity in benefit levels paid by such plans and the absence of any uniform means of adjusting private pensions for cost of living increases.

Putting the pension and SS patterns together in an attempt to determine an optimum earnings replacement rate for OASDI alone, Schulz projected the ratio at retirement of old age benefits to pre-retirement earnings (defined as the average earnings of the five years immediately preceding retirement) for U.S. couples retiring during the period 1960-1980. Only in earnings groups below $4,000 was a majority of couples found to receive at least 50 percent earnings replacement. In the group with average earnings between $8,000 and $8,999 only 6 percent of the couples were found to receive at least 50 percent replacement. He concluded that SS alone should be responsible for a replacement rate of 55 percent--a long way from where the system is today.

---

*"Recent Trends in Retirement Benefits Related to Earnings," Monthly Labor Review, June 1972, p. 18.

D. Policy Changes in the Short Run

The tension between the "anti-poverty" and "social insurance" goals of the SS program will not be resolved overnight, even with the development of SSI. Even if one thinks that the Social Security system should be a national pension scheme, whose benefit levels are determined by the national priority accorded to the needs of the retired, the disabled and survivors whose costs are paid for by a tax on current earners; that the tax used to support the pension system should not impose hardship on the poor; that the arguments for financing pensions out of a progressive tax that exempts the poor are just as strong as those for financing other government expenditures in this way--nonetheless, the fact that a shift to full general revenue financing of SS would require a 45 percent increase in personal federal income tax revenues means this is not in the short-run political cards. Furthermore, those who emphasize the social insurance goal of SS remain a powerful part of this debate. They feel that to finance the system more progressively would be to introduce a means test, undercutting the contributory insurance feeling that workers have. If, for example, the rate of contribution--the payroll tax on employees--were lowered for lower income workers, and thus the ratio of benefits to earnings made relatively higher for this part of the aged population, then, runs the argument, one is left with a national welfare scheme for the aged that contradicts the principle of social insurance.

Thus the short run is likely to yield more tinkering with the system rather than a major overhaul of it. This is perhaps clearest in discussions of the work disincentives in the retirement test. Currently, retirees between the ages of 65 and 72 who earn more than $2,400 lose fifty cents of SS benefits for each dollar earned. This provision, it is claimed, is to assure that monthly benefits will be paid to a worker only when he has substantially retired. (However, those over 72 receive full benefits regardless of their earnings, and unearned income at any age does not affect the benefit structure.)

The following examples are illustrative of some alternatives for change within the existing framework, together with their estimated level-cost on a long-range basis, both as a percent of taxable payroll and in dollars annually.

1. Increase the Annual Exempt Amount

   Provide an annual exempt amount of:

   (a) $3,000 -- $1 of benefits withheld for each $2 of earnings above $3,000.

   Cost: .15% of taxable payroll; $930 million annually.

   (b) $3,600 -- $1 of benefits withheld for each $2 of earnings above $3,600.

   Cost: .23% of taxable payroll; $1.4 billion annually.

   (c) $4,800 -- $1 of benefits withheld for each $2 of earnings above $4,800.

   Cost: .34% of taxable payroll; $2.1 billion annually.

   (d) $6,000 -- $1 of benefits withheld for each $2 of earnings above $6,000.

Cost: .41% of taxable payroll; $2.5 billion annually.

2. Lowering Age at Which Retirement Test Will Not Apply

The original test had no termination date based upon age.

In 1950, the age at which the retirement test would not apply was established at age 75, and then lowered to age 72 in 1954.

The following are three possible alternatives:

At age 70 -- cost .07% of taxable payroll; $432 million annually.

At age 68 -- cost .17% of taxable payroll; $1 billion annually.

At age 65 -- cost .43% of taxable payroll; $2.7 billion annually.

3. Apply the Test on a Graduated Basis so as to Assure Each Individual a Specific Income before any Reduction

Provide an annual exempt amount equal to:

(a) $3,000 minus the annual benefits to which the individual is entitled with a $1-for-$2 reduction above the exempt amount.

Cost: negligible.

(b) $5,000 minus the annual benefits to which the individual is entitled with a $1-for-$2 reduction above the exempt amount.

Cost: .15% of taxable payroll; $930 million annually.

(c) $6,000 minus the annual benefits to which the individual is entitled with a $1-for-$2 reduction above the exempt amount.

Cost: .27% of taxable payroll; $1.7 billion annually.

(d) $9,000 minus the annual benefits to which the individual is entitled with a $1-for-$2 reduction above the exempt amount.

Cost: .43% of taxable payroll; $2.7 billion annually.

Under proposals such as these, the provisions of present law would continue to apply in individual cases when a higher exempt amount would result.

4. Apply the Test to All Income

Provide that in determining an individual's income all income, except social security benefits, veteran's benefits, and need-related payments would be counted:

(a) $2,400 annual exempt amount with a $1-for-$2 reduction for income above $2,400.

Cost: .03% of taxable payroll; $19 million annually.

(b) $3,000 annual exempt amount with a $1-for-$2 reduction for income above $3,000.

Cost: .14% of taxable payroll; $864 million annually.

(c) $3,600 annual exempt amount with $1-for-$2 reduction for income above $3,600.

Cost: .21% of taxable payroll; $1.3 billion annually.

(d) $4,800 annual exempt amount with a $1-for-$2 reduction for income above $4,800.

Cost: .31% of taxable payroll; $1.9 billion annually.

(e) $6,000 annual exempt amount with a $1-for-$2 reduction for income above $6,000.

Cost: .37% of taxable payroll; $2.3 billion annually.

(f) $10,000 annual exempt amount with a $1-for-$2 reduction for income above $10,000.

Cost: .41% of taxable payroll; $2.6 billion annually.

In the very short run, it seems likely that the compromise will be reached somewhere in the $3,000-$3,600 range. And recently the highly influential SS Advisory Council recommended that the 50% excess earnings tax be cut to 33%. This proposal also has a fair chance of success, although perhaps not in combination with a raised ceiling on no-penalty allowable earnings.

E. Changes in the Mid-Term Future

Over the next several years, the dominant theme will be a piecemeal infusion of enough general revenue to keep the SS system from collapsing. The genesis of the Advisory Council's report supports this view. Last year, the Council had tentatively adopted a plan to apply the payroll tax to the first $24,000 of every worker's wages, as compared with the current $14,100. In a last-minute reversal, however, the Advisory Council abandoned this suggestion and chose a sharply different plan: to leave the covered earnings ceiling where it was, at $14,100; to convert slightly more than half of Medicare expenses to general Treasury revenues and out of the Social Security payroll tax; to leave the payroll tax unchanged at its present rate of 5.85%, but to devote more of it to the basic OASDI system. At present, out of each 5.85% in payroll tax, 0.9% goes toward Medicare. The Council's suggestion would reduce this to 0.4%, leaving a total of 1% of payroll (employer and employee combined) free to meet the projected gap in Social Security revenues without raising the ceiling or increasing the tax rate.*

In many ways, the more interesting question is why the Council reversed itself. Its stated reason was that it did not want to "move beyond the philosophy of the system" and that it would otherwise start "impinging on savings in the economy." But it seems that the Council, made up of priests of the system, came up with this formula to cover the retreat from its opposition to general revenue financing. From their perspective, the integrity of the system could not be protected if it were to continue to shoulder each additional social program (SSI, Medicare) that came along. Eventually, it seems likely that Medicare will eventually be subsumed under a National Health Insurance Plan, separate from SS. But overall, we shall see a continuing effort by SSA to protect the "integrity" of the Social Security system by concentrating on its earnings replacement function, while simultaneously seeking general revenue support to shore it up.

---

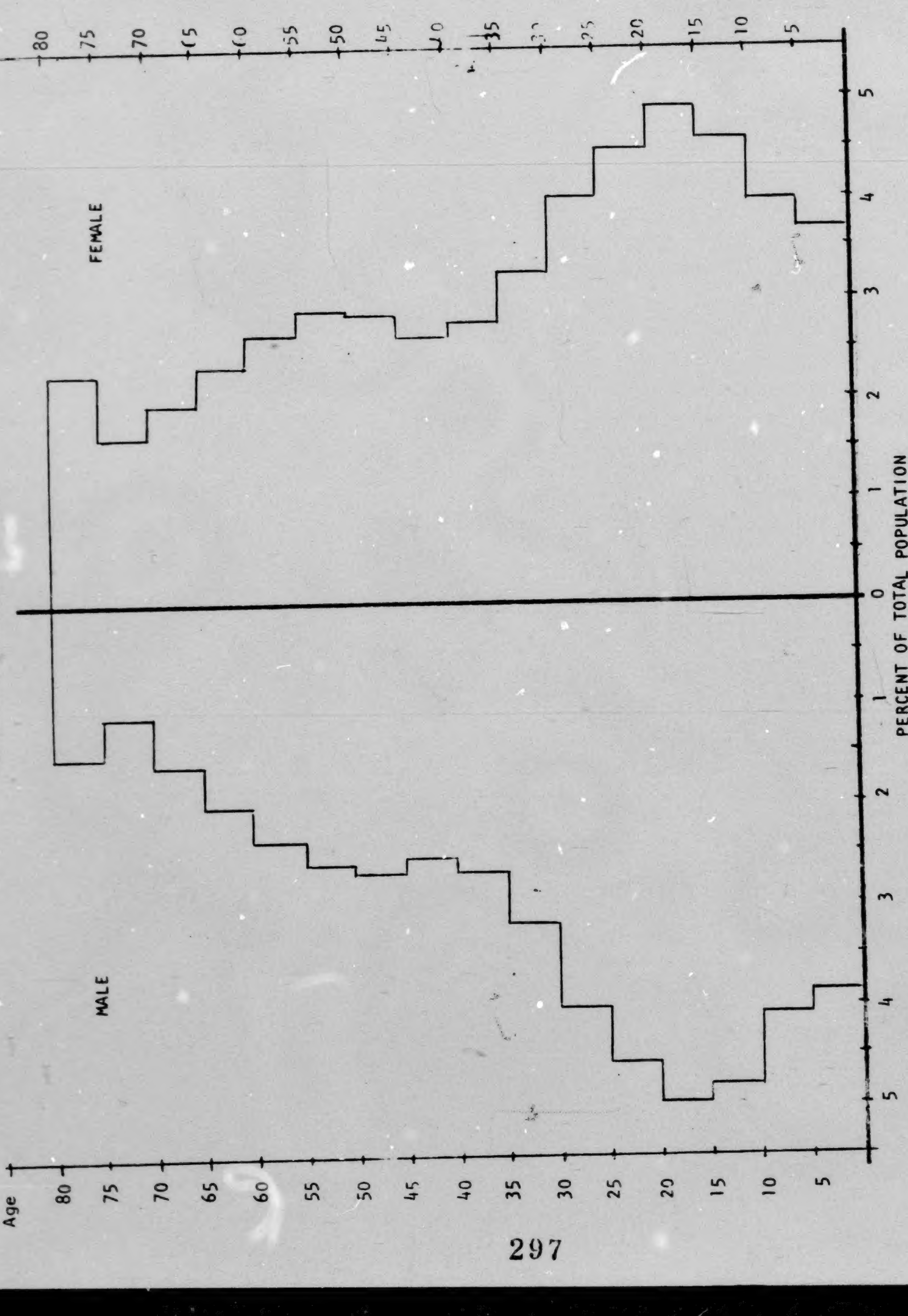
*However, in 1977 the rate is projected to go up to 6.05%, in 1980 to 6.30%, in 1985 to 6.45%, and in 2010 to 7.45%.

F. Control in the Long Run

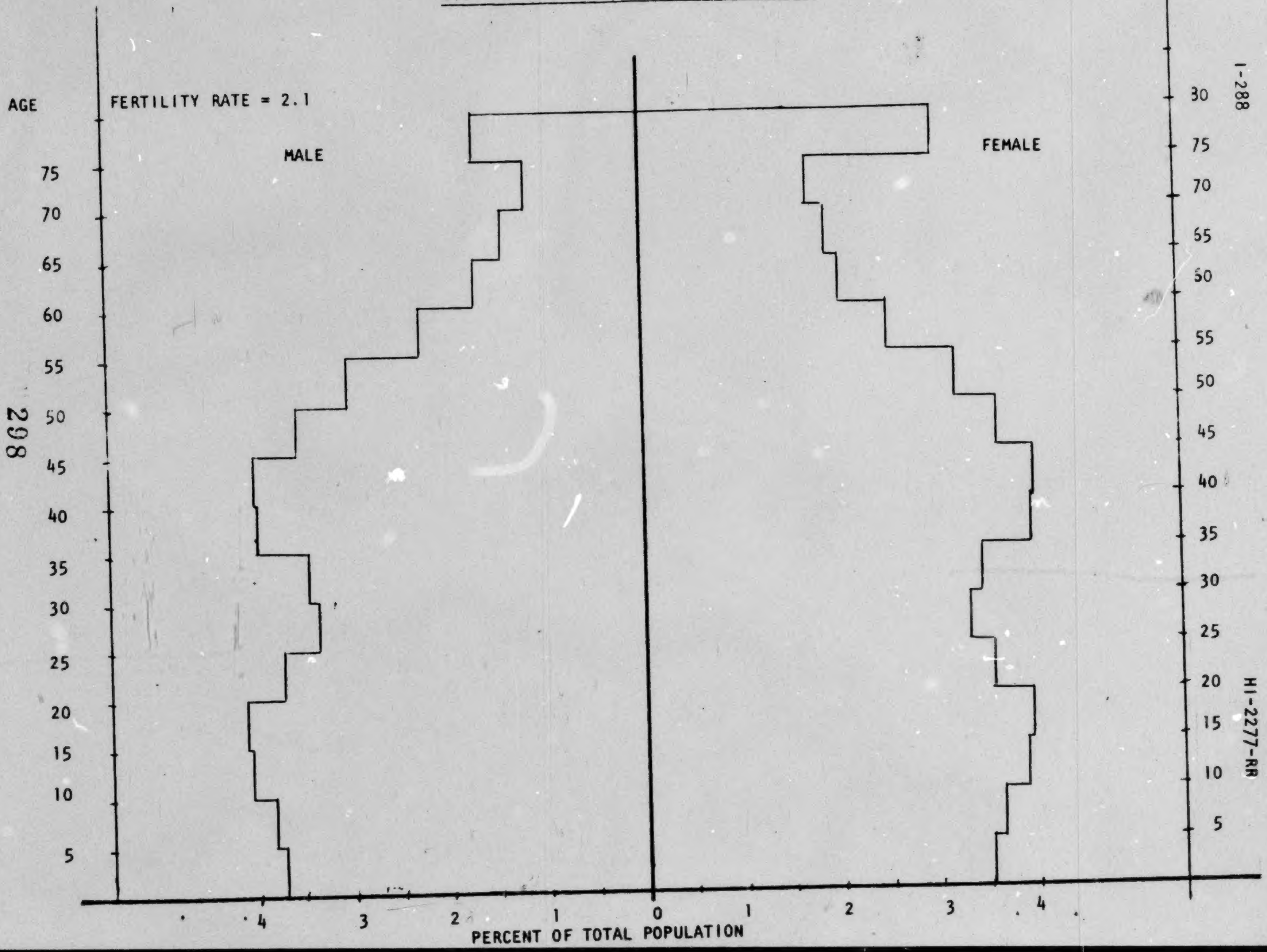
The foregoing has been concerned with policy adjustments that might be made within the existing SS framework. Let us turn now to some of the long-run issues. In looking at long-term forecasts, I have largely ignored the spate of projections that consider the outlay levels in isolation from everything else. For example: The New York Times last year projected that given the escalator clause in the 1972 legislation, and assuming inflation at 2.75 percent (!!!) and average wage level increases at 5 percent, without any further increase by the Congress the maximum retirement benefit would rise to $7236 in 1980 and would top $30,000 by the year 2011. Meanwhile, the maximum contribution per worker would reach $8288, with income up to $66,300 then subject to SS tax. These numbers were intended to be dramatic, but since even on its own assumptions the average wage level in this projection would rise more than fivefold, the absolute figures are hardly very interesting.

More interesting are the projections that concern the future demographic profile of the country, and its impact on Social Security. The following four tables display some plausible projections of the current trend, along with a long-term alternative based on a lower birth rate.

U.S. POPULATION PYRAMID (1975)



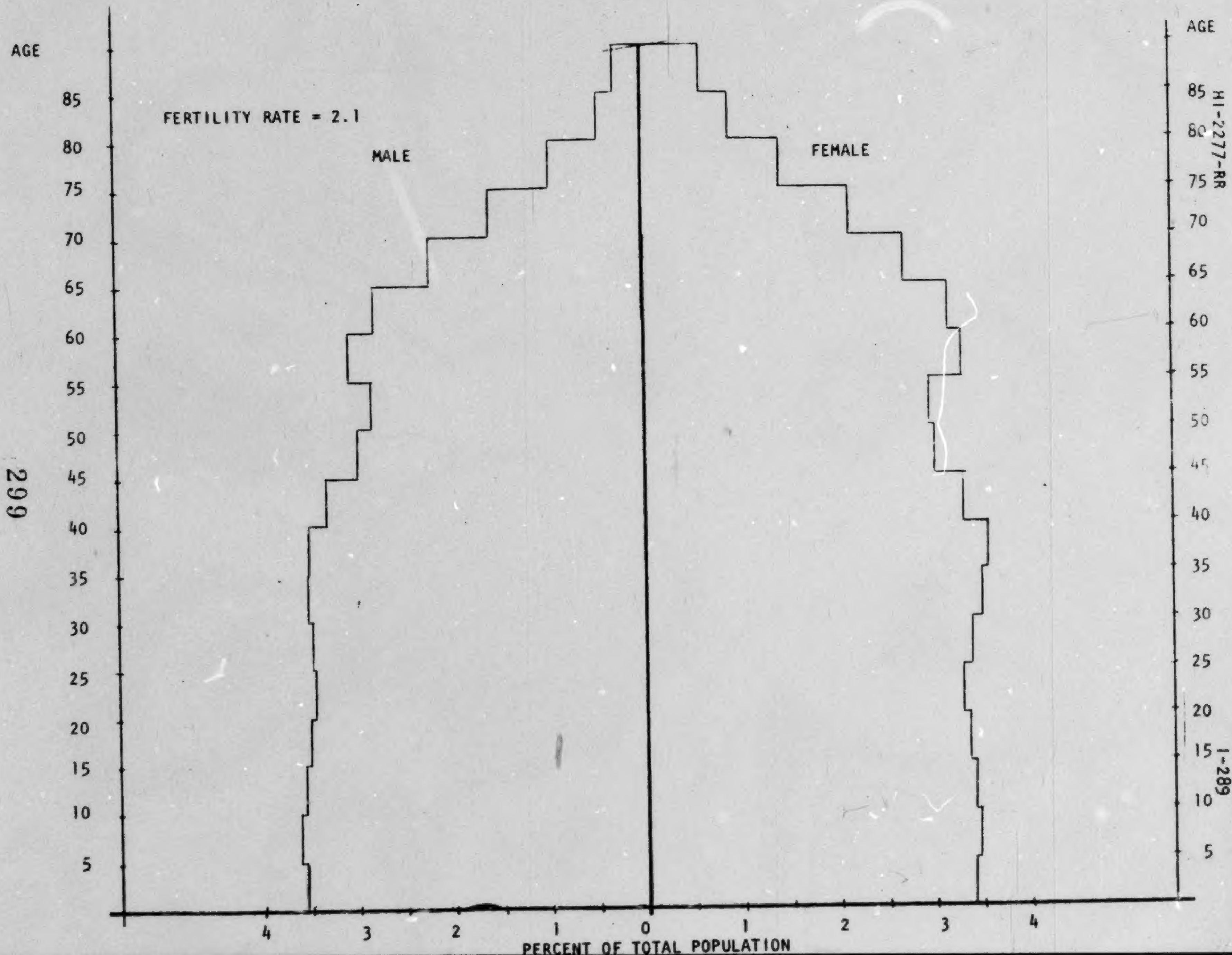
U.S. POPULATION PYRAMID FOR YEAR 2000



1-288

HI-2277-RR

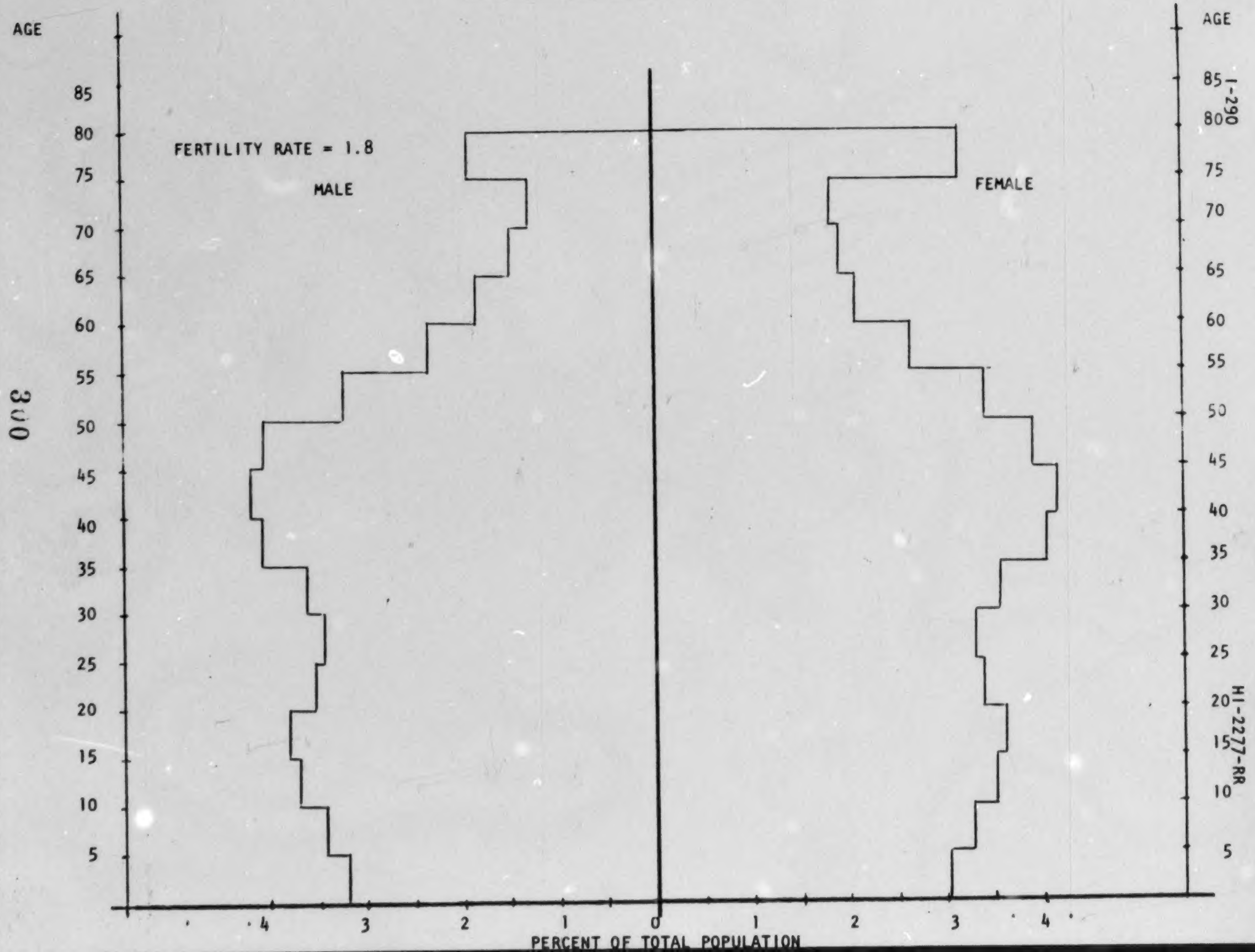
U.S. POPULATION PYRAMID FOR YEAR 2020



HI-2277-RR

I-289

U.S. POPULATION PYRAMID FOR YEAR 2000



One can see that although there will be 29,000,000 over-65s in the year 2000, they will not represent a dramatically larger percentage of the population than they did in 1970:

	Percent of Population 65+	Median School Years 65+
1970	9.8	8.7
1975^E	10.3	8.9
1980^E	10.5	9.7
1985^E	10.6	10.9
2000^E	10.1	11.9

But they will represent a progressively smaller percentage of the work force.

Labor Force Participation Rates		
	Males	Females
1970	26.8	10.1
1975^E	23.9	9.7
1980^E	22.7	9.2
1985^E	21.8	9.1

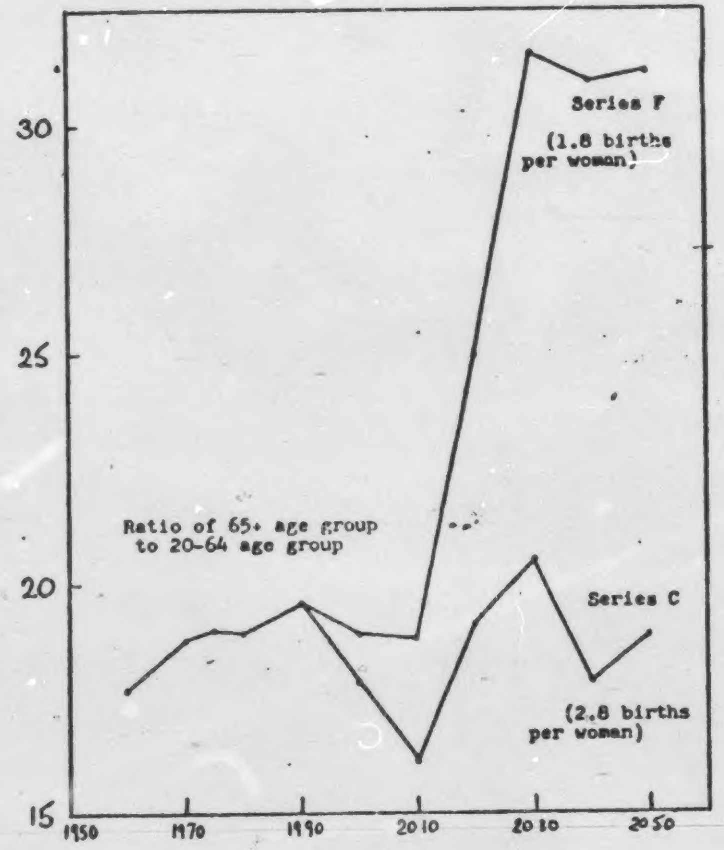
Thus the so-called dependency ratios became important. These are attempts to measure the ratio of persons over 65 and not in the labor force, against the total projected labor force--the "aged dependency ratio"--and the ratio of all persons not in the labor force to the total labor force--the total dependency ratio. Obviously, such projections are highly sensitive to assumptions made about changes in labor force participation of the aged. Since the decline in the aged male labor force participation rate has been sharp over the last two decades, assumptions about future labor force participation rates are difficult to make with any confidence. But the speculations are interesting.

Denis Johnston developed these for the Population Commission:*

	1972	1980	2000	2020
Aged Dependency	.18	.19	.20	.25
Total Dependency	1.36	1.19	1.10	1.12

Another view comes from the Laffer and Ranson's report on Social Security, cited above.

PROJECTED OLD-AGE DEPENDENCY RATIOS FOR THE U.S. POPULATION



---

*See Denis Johnston, "Commission on Population Growth," Vol. II, 172, Table 5.

If one concentrates exclusively on the problem of the aged-dependency, it is true that the demographic picture yields some dismaying futures. But the declining birth rate and pass-through of the baby-boom generation that create the heavy load for the social security system also mean that the proportion of the youngest age group making dependency claims on the working population should decline. The projections show that while the aged dependency ratios will rise steadily, the total dependency ratio should decline sharply to the year 2000, and that even in 2020 it will still be considerably below the total dependency ratios of the present and the recent past. Obviously, further analysis is needed of how much less we shall be spending on "youth dependency" and how much of an offset that constitutes for our increased aged burden. But the first look suggests the problem may not be as serious as some have feared.

These dependency ratios, in turn, are highly sensitive to different assumptions about how and why departure from the labor force occurs. The young or mature worker may incline to the "voluntarist" hypothesis of retirement from the work force. That is, he may see it as a matter of one class of people (in this case an age group) choosing to live a comfortable life at the expense of another, more productive class. To the retiree, however, it may appear only fair that those who have forced or induced the aged out of the labor market should bear the costs of doing so. Leaving aside the question of fairness, there is some evidence for both the voluntarist and forced views of retirement. On the one hand, it seems certain that the liberalization of benefits and the extension of coverage to over 90 percent of all workers makes more attractive the option of voluntary retirement. It is hard to characterize the 'retirement test' for persons between 65 and 72 in these terms. Instituted during the Depression thirties, the retirement test had as a goal the acceleration of withdrawal from the work force by the aged. To the extent that such withdrawal is influenced by high marginal tax rates, is it voluntary or involuntary?

The same may be asked, on the other side, about those many elderly people who work because they cannot afford not to. We saw above that even conceived solely as an income-producer (i.e., as distinct from conveying any feelings of usefulness or identity) working is a crucial economic matter for a large proportion of the aged. For families with aged heads, the difference in earnings between those above and below the poverty line is by far the largest difference in income by source. If those in poor families had in fact had earnings anywhere near those of non-poor families, they would have escaped poverty. This is hardly consistent with the notion of a more prosperous aged class "knocking off" to enjoy the fruits of their life's labor. It suggests that a substantial number keep working as long as they can, simply to avoid hardship.*

Other evidence can be cited to at least question the "voluntarist" view of retirement. An interesting point is that the sharpest declines in aged male labor force participation occur when the overall unemployment rate is high.** In fact, for the period 1966 to 1969 when unemployment rates were at their lowest point since 1953, the labor force participation of aged males actually increased. With the softening of the economy after 1969, the rate of participation resumed its long-term decline. This would tend to support Newitt's contention that "high take-up rates for social security are much more effects of low-labor market value than causes of reduced employment."[*] In other words, the aged will work when someone wants them to.

---

*The net income of the non-working aged may well be higher than that of the working aged.

**See Appendix C.

Another feature pointing in the same direction but hard to characterize along voluntary-involuntary lines, emerges from a profile of the population that takes advantage of the early retirement provisions under SS--that is, retirement at 62 rather than 65, with permamently lowered benefits to spread over the longer period of retirement.[**] They are the lower earners, the more-often unemployed, and so on. They are getting relatively little out of their work, either monetarily or otherwise. However one chooses to label the nature of their retirement, it is clearly inconsistent with the picture of a contented senior citizen going off to bask at his condominium in the Phoenix sun.

Depending upon one's view of the 'voluntary-involuntary' question, different views of the long-term control of SS will follow. For those who see retirement as a free choice by one age-group so that they can be supported by taxes on another more productive age group, a stricter line on benefit levels, and adequacy standards is likely. But to those who see the norm of retirement as in the largest sense involuntary--that is, the low value placed on the elderly's labor driving them out of the labor force--the inference will be that the classes forcing or inducing that withdrawal must pay for it. Seen in those terms, the problem becomes one not only of assuring an adequate living standard for the non-working aged, but more generally of finding an overall place in society for those members who are no longer as productive as they once were. Clearly, this is a larger issue than that of technical adjustment of the program details; but it is at this level, ultimately, that control of the Social Security program must be approached. This is especially true if the predictions of the "Rise of the Young-Old"--the dropping of normal retirement age to 55--prove correct. American society must confront, if not explicitly at least in terms of the programs it designs, the consequences of the long term trend to progressively earlier retirement. In the short term, this has been made necessary by the sluggishness of an economy which forces hard choices about national priorities: With the pie not growing so quickly (or not growing at all) decisions about the slices are harder to take. But even if the current economic malaise eases, and even if the participation rates by the elderly in the labor force do not drop as sharply as some fear, the more basic aspects of the place of the aged in our society will have to be dealt with. Retraining; staggered work careers that enable individuals to take more time off during a work-life prolonged after 65; the abandonment of blanket mandatory retirement policies--these and other matters must be given a new look. Michael Taussig has written of the way in which SS and related programs have reinforced a long-term trend to the creation of a separate, aged society within the main society. It seems that only the current necessity to ask 'Can we afford it?' has forced us to ask the more fundamental question, 'Do we want it?' The answers will determine what seems a sensible policy on controlling the uncontrollable program of Social Security.

---

[*] Jane Newitt, "Age and Sex Distribution of U.S. Work Force," HI-2113-D, p. 17.

[**] J. Abbott, "Covered Employment" SSB, April '74, pp. 3-16.

APPENDIX A

DISCRETIONARY NON-DEFENSE OUTLAYS, 1975
(EXCLUDING PERSONNEL COSTS)

PROGRAM	1975 OUTLAYS ($ BILLIONS)
HEALTH (LARGELY RESEARCH AND TRAINING)	2.2
NASA RESEARCH AND DEVELOPMENT	1.5
FOREIGN AID (LARGELY P.L. 480 AND INDOCHINA RECONSTRUCTION)	1.3
ATOMIC ENERGY	1.2
CHILD NUTRITION PROGRAM	1.2
EDUCATION PROGRAMS	1.1
COMPREHENSIVE MANPOWER ASSISTANCE	0.9
EXTENDED UNEMPLOYMENT BENEFITS (PROPOSED LEGISLATION)	0.8
VETERANS MEDICAL CARE	0.8
FEDERAL AID HIGHWAYS	0.7
HOUSING AND COMMUNITY DEVELOPMENT ACT	0.6
COAST GUARD OPERATING EXPENSES	0.5
CORPS OF ENGINEERS AND RECLAMATION CONSTRUCTION	0.5
DEPARTMENT OF JUSTICE	0.4
PAYMENTS AND LOANS TO THE DISTRICT OF COLUMBIA	0.4
ALL OTHER	1.0
TOTAL, DISCRETIONARY NON-DEFENSE OUTLAYS	15.1

SOURCE: OFFICE OF MANAGEMENT & BUDGET

APPENDIX B

LABOR FORCE PARTICIPATION RATES,[1] PERSONS 65 YEARS OF AGE AND OLDER, 1947-1985[2]

YEAR	MALE	FEMALE
1947	47.8	8.1
1948	46.8	9.1
1949	46.6	9.6
1950	45.8	9.7
1951	44.9	8.9
1952	42.6	9.1
1953	41.6	10.0
1954	40.5	9.3
1955	39.6	10.6
1956	40.0	10.9
1957	37.5	10.5
1958	35.6	10.3
1959	34.2	10.2
1960	33.1	10.8
1961	31.7	10.7
1962	30.3	9.9
1963	28.4	9.6
1964	28.0	10.1
1965	27.9	10.0
1966	27.0	9.6
1967	27.1	9.6
1968	27.3	9.6
1969	27.2	9.9
1970	26.8	9.7
1971	25.5	9.5
1972	24.4	9.3
1975E	23.9	9.2
1980E	22.7	9.1
1985E	21.8	8.9

---

1. The labor force participation rate is the percentage of persons in the full time or part time labor force, whether actually employed or not.
2. The source for all data, including the estimates for 1975, 1980 and 1985, is The Manpower Report of the President, March 1973.

APPENDIX C

UNEMPLOYMENT RATES, PERSONS 65 YEARS OF AGE AND OLDER, 1947-1972[1]

YEAR	MALE	FEMALE
1947	2.8	2.2
1948	3.4	2.3
1949	5.1	3.8
1950	4.8	3.4
1951	3.5	2.9
1952	3.0	2.2
1953	2.4	1.4
1954	4.4	3.0
1955	4.0	2.3
1956	3.5	2.3
1957	3.4	3.4
1958	5.2	3.8
1959	4.8	2.8
1960	4.2	2.8
1961	5.5	3.9
1962	4.6	4.1
1963	4.5	3.2
1964	4.0	3.4
1965	3.5	2.8
1966	3.1	2.8
1967	2.8	2.7
1968	2.9	2.7
1969	2.2	2.3
1970	3.3	3.1
1971	3.4	3.6
1972	3.6	3.5

---

[1] The source for these rates is The Manpower Report of the President, March, 1973.

PERCEPTIONS AND POLICIES
INCOME TAX AND INCOME REDISTRIBUTION

"General Revenue Sharing and the Administration of Federal Grants-in-Aid"

by

Paul M. Bunge

This chapter was originally issued as a Hudson Institute Paper under the same title, October 30, 1974, HI-2137-P.

GENERAL REVENUE SHARING AND THE ADMINISTRATION OF FEDERAL GRANTS-IN-AID

Introduction: A Stormy Beginning

The State and Local Fiscal Assistance Act of 1972[1] was signed into law by President Nixon on October 20, 1972. As the embodiment of a major philosophical and economic shift in the means of financing state and local expenditure, it undoubtedly ranks as the single most significant piece of domestic legislation to be passed by the Congress during the Nixon administration, and it certainly stands as the cornerstone of the former President's legislative drive to forge a "New Federalism." "[T]he purpose of general revenue sharing," Nixon declared in the message accompanying the bill to Congress, "is to set our states and localities free--free to set new priorities, free to meet unmet needs, free to make their own mistakes, yes, but also free to score splendid successes which otherwise would never be realized."[2] It was time, the President believed, "to return power to the people and put the individual self back in the idea of self-government."[3]

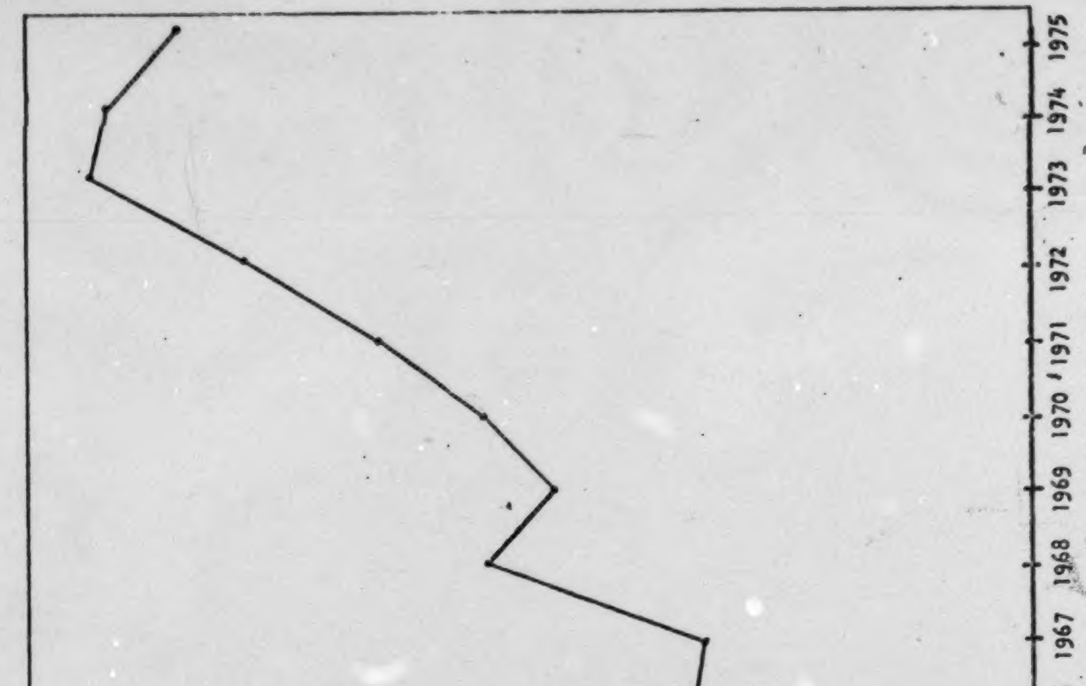
Initial reaction to the passage of the general revenue sharing act was favorable, with much laudatory comment coming from the expected recipients of the new money, state and local officials. Mayor John Lindsay heralded the signing of the measure as "a day of victory for America's states and cities, a major step toward relieving the enormous financial and physical pressures on them."[4] In the Spring of 1973, several months after the distribution of the first checks, an opinion poll of 199 chief administrative officers in cities with populations in excess of 50,000 found that 78.4 percent considered themselves "very satisfied" or "somewhat satisfied" with the operations of the program, and only 8.5 percent were "very dissatisfied" or "somewhat dissatisfied."[5] The reaction of the general public to revenue sharing has been more difficult to measure accurately. In 1973 the Advisory Commission on Intergovernmental Relations contracted with the Opinion Research Corporation of Princeton, New Jersey to assess the public response to the new program, and the results obtained were largely inconclusive. When asked in May, 1973, whether they favored or opposed the concept of federal aid to state and local governments "to use as they think best,"[6] 56 percent of the respondents reported that they favored such aid, while only 18 percent opposed it.[7] On the other hand, in response to a related question concerning the use of federal grants by the states and localities,[8] a plurality of 48 percent believed that such money is most efficiently used when given out for specific purposes, as opposed to the 30 percent of those polled who believed that such funds should be distributed unconditionally.[9] This split in public attitude over the degree of supervision believed desirable in the disbursement of federal aid is perhaps explainable as due to the abstract quality of the policy arguments and the complexity of the issues involved in the administration of the federal assistance programs.

The initial jubilation over the signing of the measure was soon replaced by a considerable controversy about the extent of the federal government's commitment to financing local government operations when, in January, 1973, the Office of Management and Budget announced--in pursuance of the President's professed desire to hold federal spending to $250 billion--that $8.7 billion of previously appropriated funds was to be impounded.[10] This decision precipitated an enormous outcry from local officials who charged that the reductions--principally in the areas of health, housing, and social services--would serve only to increase the fiscal burdens on local governments. There was a widespread fear that the impoundment of funds earmarked for distribution to states and municipalities would force those governments to allocate a greater percentage of their own tax revenues to the financing of domestic programs which had been originally conceived in Washington. Mayor Joseph Alioto of San Francisco complained that the budget cutbacks would result in a net decrease of $22 million in aid to San Francisco, even after allowing for the projected receipt of $18 million in "new" shared revenue. Georgia's Governor Jimmy Carter testified in hearings before the Advisory Commission on Intergovernmental Relations in late 1973 that "[a]lthough the concept of revenue sharing was very good, I had great concern that there was no additional revenue to share. Despite the fact that the President and then Secretary of the Treasury Connally assured the Congress and the public that existing funds would not be used to finance revenue sharing, I was fearful that this would be the case, and indeed it has turned out to be the case."[11]

The argument that the enactment of general revenue sharing has left local governments in no better shape than they were before is a very powerful one. Figure 1 details federal assistance to state and local governments as a percentage of local expenditure and reveals that the year 1973 was a turning point in the history of federal aid. While the graph excludes figures for general revenue sharing, it is clear that state and local governments are indeed receiving a smaller percentage of their budgets from the federal government today in the form of categorical and block grant assistance than they were two years ago.[12] The Brookings Institution has estimated that the 1972-1975 budget gap in education, manpower, and community development amounts to $2.36 billion (in current

FIGURE 1

FEDERAL AID AS A PERCENTAGE OF STATE-LOCAL EXPENDITURE, 1960-75



SOURCE: BUDGET OF THE UNITED STATES, FISCAL YEAR 1975, SPECIAL ANALYSIS N.

dollars) below real spending levels in 1972.[13] Congressional critics expressed concern that revenue sharing was facilitating a reorientation of national priorities by enabling the President to cut funding for domestic social legislation while providing additional money for the discretionary use of state and local officials, thus making the proposed cuts more palatable.[14]

TABLE 1

PROGRAM	CHANGE IN OBLIGATIONS INCURRED 1972-75	AMOUNT OF INCREASE NEEDED TO KEEP PACE WITH INFLATION	SHORTFALL OF OBLIGATIONS BELOW 1975 REAL LEVEL	
			AMOUNT	AS PERCENTAGE OF 1975 OBLIGATIONS
Education	$ 283	$ 710	$ -427	-11.9
Community Development	-171	656	-827	-36.0
Manpower	-634	475	-1,109	-54.1
Total	-522	1,841	-2,363	-29.8

Source: Setting National Priorities: The 1975 Budget, p. 41.

Nor does it appear that local officials are committed to substituting shared revenue in place of the categorical grants which have been withheld. In their opinion analysis of 147 cities which have received OEO and Model Cities funds in the past, Caputo and Cole have determined that less than 20 percent of the chief administrative officers in those cities are in favor of such a substitution, whereas 40 percent are opposed.[15] These findings, coupled with an evaluation of the reported actual use of shared revenue as discussed in a later section of this paper, seem to indicate that the impact of general revenue sharing on the future of the Great Society programs for community mobilization will not be a salutary one.

TABLE 2

WILL GENERAL REVENUE SHARING FUNDS BE USED FOR OEO AND MODEL CITIES ACTIVITIES?

	YES		NO		UNCERTAIN	
	PERCENT	NO.	PERCENT	NO.	PERCENT	NO.
Population Group						
Over 500,000	20.0	2	20.0	2	60.0	6
250,000-500,000	41.2	7	23.5	4	35.3	6
100,000-250,000	18.6	8	46.5	20	34.9	15
50,000-100,000	15.6	12	42.8	33	41.6	32
Metropolitan Type						
Central City	21.3	24	40.7	46	38.0	43
Suburban Area	14.7	5	38.2	13	47.1	16
Total, all cities	19.8	29	40.1	59	40.1	59

Source: David A. Caputo and Richard L. Cole, "The Initial Impact of Revenue Sharing on the Spending Patterns of American Cities," p. 30.

The problem of presidential impoundment is an important consideration in examining the underlying policy motivations of the administration's support for general revenue sharing. It is possible to argue that, by withholding expenditures for a variety of social programs intended to benefit lower income recipients,[16] the White House was attempting to turn back a decade of national concern over the plight of the poor, while at the same time providing a new source of revenue which would be allocated among the traditional spheres of state and local service delivery: education, law enforcement, and public transportation. Thus, by selectively applying what amounted to an "item veto" of legislation not in harmony with the President's conservative ideology, the White House was attempting to dry up funds for many of the locally-administered domestic programs which had been enacted by previous Democratic administrations. Then, in compensating for the resulting reductions in categorical grants, general revenue sharing would enable the administration to reach beyond the Democratic Congress to local units of government which--presumably--would be less inclined to undertake or continue massive programs of aid to the indigent.

Whatever the hidden motives of the administration (and concern over the inflationary effects of a rapidly and increasingly uncontrollable federal budget was a very real justification for budget cuts to be made somewhere), attempts to impound funds met with considerable resistance. At least forty suits were filed in the federal courts in 1973 contesting the legality of impoundment.[17] Almost all of these cases resulted in a court ordered release of the impounded funds. State Highway Commission of Missouri v. Volpe[18] was one of the first cases to reach a decision, and it established the basic legal principles by which many of the subsequent decisions were guided. The Eighth Circuit held in that case (1) that the question of impoundment "is essentially one of statutory construction, (2) that funds may not be impounded by the executive branch for policy reasons, (3) that the executive branch in administering a program must stay within the limits prescribed by the legislative branch, and (4) that the executive branch official who illegally impounds appropriated funds acts outside the scope of his authority."[19] The government had argued that the Secretary of Transportation could withhold funds under the Federal Aid Highway Act if such a withholding were justified to dampen inflation and promote economic stability. The court, however, determined that such ancillary policy reasons could not be used to jeopardize or defeat the purposes of the statute.

The government continued to lose in a series of impoundment cases stretching into 1974. The notion that impoundment is a political question not amenable to judicial interpretation was rejected by the District Court for the District of Columbia in National Council of Community Mental Health Centers v. Weinberger.[20] The defense of sovereign immunity was repudiated in City of New York v. Ruckelshaus[21] and in Local 2677, American Federation of Government Employees v. Phillips,[22] where the District Court enjoined the termination of the community action program and the dismantling of the Office of Economic Opportunity, absent congressional approval. In sum, the courts were almost unanimous in believing that "there is no basis for...assertion of inherent constitutional power in the executive to decline to spend in the face of a clear statutory intent and directive to do so."[23] Bowing to the inevitable, the President announced on December 19, 1973 that $1 billion of previously impounded health and education funds was to be released.

The Congress, however, alarmed by the President's encroachment into its appropriations power, accelerated consideration of various measures to limit the ability of the executive to withhold appropriated funds and ultimately enacted the Congressional Budget and Impoundment Control Act of 1974[24] which President Nixon signed into law on July 12, 1974. Title X of the Act establishes a rather elaborate mechanism by which both the Senate and the House of Representatives must henceforth approve any refusal by the President to obligate program funds. Further, the Comptroller General of the United States is specifically empowered to bring suit in the District Court for the District of Columbia to challenge the withholding of any appropriations by the executive branch. The enactment of this measure and the reappropriation of all contested funds impounded for fiscal year 1973[25] effectively put to an end the power o

President Nixon to reshape government spending contrary to the wishes of Congress. Whether similar restraints will suffice to control future Presidents is a question which remains to be answered.

The Historical Context

The first experiment in the United States with unrestricted, general purpose federal grants came in 1836 with congressional passage of the Surplus Distribution Act of that year.[26] The U.S. Treasury had realized an unexpected--and rather embarrassingly large--surplus from the collection of customs duties and the sale of federal lands. The amount was sufficient to retire the entire national debt, and Congress voted to distribute the remaining $42 million--reserving $5 million for national contingencies--to the states on the basis of their representation in Congress. Three of the four installments, amounting to $28 million, were made to the states before the recession of 1837 eliminated the surplus, and the federal grants.

While the distant origins of federal aid can be traced back to the provisions of the Ordinance of 1785 requiring that a section of each township in the federal domain be set aside for the maintenance of a public school, it was only with the passage of the Morrill Act of 1862 that federal assistance to state and local governments began to take on the characteristics familiar to the operation of modern aid programs. The act, intended to assist the states in establishing land-grant colleges, contained an enumeration of specific objectives, placed conditions on the use of revenue, and required the submission of annual reports by the recipient governments. In 1879, Congress provided an annual appropriation for the purchase of educational materials for the blind and, in 1887, set up a federal program to assist the states in forming agricultural experiment stations. The Weeks Law of 1911 funded a cooperative program between the federal government and the states to aid in the suppression of forest fires and the Smith-Lever Act of 1914 established the first nationally financed programs of agricultural extension work. The latter two acts introduced the concept of apportionment between the states on the basis of allotment formulas and also contained the first requirements for matching contributions and State plans. In 1917, Congress approved the payment of annual grants to the states for vocational education, a program which remains active today.

It was not, however, until the depression decade of the 1930s that federal assistance to local governments assumed a major role in financing public services. Up until that time the national government had had very little to do with the provision of direct services to people in need. The federal government assumed responsibility for the compensation of veterans and established a few minor programs for American Indians at a very early date but, in terms of setting priorities for domestic social policy, the States were paramount. Until the Depression, federal funds never amounted to more than three percent of total state and local revenues.[27] With the collapse of the economy, the inability of state governments to deal with massive unemployment and a growing potential for widespread social instability made it clear that federal intervention had become necessary. From 1933 to 1938, sixteen new assistance programs were inaugurated, all but two of which were directed toward social welfare, health, unemployment or agricultural relief. Total federal grants-in-aid amounted to nearly $3 billion in 1939 with over three-fourths of that sum devoted to health, welfare, and labor programs.[28]

The growth of the federal government as a major contributor to the financing of state operations was accompanied by the introduction of certain major--though largely unstated--assumptions about the role and prerogatives of federal influence over local administration. Clearly, the enactment of major initiatives in social welfare legislation signified that the problems of the poor and unemployed were henceforth to be considered as national in scope and importance, justifying national measures for their amelioration. For the first time in the nation's history, domestic peacetime concerns were to be determined in Washington, with an agenda set and funding determined by Congress. The states were to be encouraged to join in the financial participation provided by Congress (and no assistance program has ever been made compulsory) by the enactment of increasingly liberalized payment formulas. Thus, while all states retain the theoretical right to refuse the financial support offered by the federal government, the trend has been--as in the "adult categories" of public assistance--that as federal participation increases over time from thirty-three percent to fifty percent to one hundred percent, the fiscal and political pressures to accept federal funding become irresistible. In this way, the national government can effectively underwrite a nationwide response to a particular problem while leaving to the states the problems and opportunities of day-to-day administration and control.

Along with the designation of national priorities, federal grants-in-aid have made possible the redress of certain "spill over" effects of the provision of local services. The justification for national aid to federally impacted areas, for example, is that certain localities should not be penalized by the outward migration of federal employees who have taken advantage of local services. In such circumstances, no local government would be willing to invest in services which would not be likely to accrue to its own citizens. Thus, federal aid is necessary to raise the total amount of spending nearer to what would be considered a national optimum.

In the decades since World War II, greater attention has been given to the use of federal assistance as a means of redistributing income from wealthy states to less economically advantaged states. If grants-in-aid are principally motivated by a desire to assist all states in providing the range and quality of services thought necessary in modern society, there is considerable merit in the position that the federal government should provide more in the way of funding to those states which are unable to meet the costs of public service from their own coffers. By and large, legislation which has sought to incorporate this goal has done so through the use of allocation formulas weighted inversely by per capita income. What this device fails to correct for, however, is the fact that a number of states may be too poor to afford the matching contribution required for participation in virtually all federal grants, particularly for those programs perceived by local officials to be of only marginal utility in the context of the state's politics and priorities. This situation is exacerbated by the tendency of new programs to expand in their scope and coverage, thus draining off more of the state's resources for local matching. It is not surprising to find that the wealthier states are the ones which have utilized federal aids to a greater degree--notwithstanding their heavier matching requirements--than have the poorer states. It may be a general rule that a state's willingness to join a federal program is directly proportional to the likelihood that that state would eventually launch its own parallel program without the benefit of federal funds. In that regard, of course, rich states with their broader resources and longer tradition of extensive public service delivery have the advantage. In order to make the provision of federal funds for marginal programs attractive to all states, it may be necessary to question whether state and local matching requirements have not outlived their usefulness.

The decade of the 1960s witnessed a considerable amount of motion in the area of federal assistance. A number of developments served to propel the issue of federal grants-in-aid into national prominence. On the one hand, concern over the problems of human development and urban decay led to a rapid proliferation in the number of federal programs designed to cope with domestic social ills, and these programs contained features which were major innovations in the field of federal assistance. Simultaneously, increasing complaints from local officials were heard about the complexity of grant applications, and studies were launched to determine how the national government could best respond to the calls for an immediate overhaul of the grant-in-aid system.

Categorical grants were the chosen vehicle of Lyndon Johnson's Great Society. In 1960, principally because of $24 billion infusion of federal funds for the interstate highway system, commerce and transportation dominated federal intergovernmental assistance, but the next few years marked a shift in the emphasis of federal aid to human and community development. As poverty was rediscovered and the plight of the cities became more intense, the federal government came to play a greater and greater role in providing the financial backing for an assault on poverty and urban decay. Assistance programs multiplied until by 1970, there were over 400 individual grants in operation. Almost all of this money went to states, with direct federal-local grants only a minor element in the picture."[29] While the states retained ultimate authority for the administration of federal aids within their jurisdictions, the emphasis of the administration and the inclination of federal officials was clearly on providing financial assistance to urban areas. This was reflected not only in the orientation of the Congressional enabling legislation, but also in the new authority of city officials in Washington. The "metropolitan lobby" had come of age.

Contemporaneously with the federal government's interest in urban problems, there developed a short-lived belief that poor people themselves --if only given the wherewithal--could organize effectively to attain their own economic and political goals. Great stress was laid upon the successful operation of the Community Action Programs legislated into being by Title III of the Economic Opportunity Act. Federal administrators placed great emphasis upon the "maximum feasible participation" of the poor, and successfully resisted a Congressional attempt to extend the Hatch Act to cover CAP agency employees. All of this was done to insure that local boards would be able to operate independently, free of local government control or interference, but the results of Community Action, though debated at length and inconclusively,[30] were admittedly less than federal officials had hoped. Moreover, having short-circuited both state and local governments, the CAP agencies received an enormous amount of criticism from local officials who sensed that the programs were dangerously beyond their control and susceptible to partisan influence. Congress, reacting to the cries from City Hall and alarmed by publicized incidents of graft and mismanagement, moved in 1967 to place Community Action under the control of local operating agencies.

Throughout the 1960s there developed an increasing disposition to question the adequacy of the federal grant-in-aid structure for dealing with state and local problems. Most of the questioning came from those who were dissatisfied with or frustrated by the sheer number and complexity of federal grants, which hampered local administration and innovation. The attacks made were largely advanced on efficiency grounds: the concept of federal administration and targeting was sound, but changes had to be made in the organization and processing of grant applications if local governments were not to be overwhelmed by the mass of rules and regulations to which they had to conform. Nelson Rockefeller, then Governor of New York, enumerated the principal complaints of those who sought to administer federal programs on the local level:

> The shortcomings and excesses of many Federal assistance programs are:
> Their sheer multiplicity;
> The narrow categorizing of grants; and
> Excessively restrictive regulations, from which there is no real appeal;
> Uncertainty as to what actual appropriations and allocations will be, and
> Redtape, delays, and disappointment of rising expectations among the people which were created primarily by the initiation of the Federal programs in the first place.[31]

While federal and local officials were in general agreement that measures had to be taken to reform the existing structure of categorical grants, the perceptions of administrators in the different layers of government were dissimilar. Local politicans attacked the patchwork nature of federal assistance and questioned whether the national government was equipped to determine priorities for differing localities. Federal officials, while accepting the need for some streamlining in assistance payments, argued that the real blockage in efficient use of grants was occurring at the state and local level. HEW Secretary John Gardner, a primary exponent of what became know as "creative federalism," testified in hearings before the Senate Subcommittee on Intergovernmental Relations, that "one of the great weaknesses in creative federalism at the moment is that most state and local governments are not strong enough to play their role in an effective partnership with the Federal Government ....Because of the need for vitality in the non-Federal partner," Gardner believed, it was up to the federal government to strengthen local agencies through the implementation of various devices designed to stimulate creativity and managerial effectiveness.[32]

Accordingly, the attention of the Johnson administration was focused on legislative initiatives which could be used to encourage the development of responsive government action at the non-federal level. Merit personnel systems had been required in the administration of state and local welfare agencies since 1939,[33] and their enforcement had gone far to professionalize local welfare operations. During the closing days of the Johnson Administration, Congress passed the Intergovernmental Manpower Act which was designed to provide financial assistance to state and local governments to upgrade their personnel systems. Throughout the sixties, stress was laid on the enactment of project as opposed to formula grants. The belief was that, by stimulating local governments to develop their own approaches to the solution of local problems, the federal government could foster creativity and innovation in the delivery of public services. Project grants, which required individual applications for specific undertakings, were seen as a more flexible device for distributing federal monies than the traditional formula grants, which allocated funds on the basis of predetermined statutory allotments. In 1966, over half of all aid programs (226 out of 399) were distributed on a project basis,[34] and their number has steadily increased. As for their utility, project grants unavoidably placed new demands on local officials in terms of application procedures, and the results of the programs approved by federal officials have been often called into question. "More than anything else, federal project grants helped to zero in on specific problems and to demonstrate how things ought not to have been done. By testing the waters the federal government saved the states considerable embarrassment."[35]

Various attempts have been made in the past decade to deal on the federal level with the confusing plethora of grant programs. Most of these efforts have been directed toward decentralization of program responsibility, both from the federal government to the localities and within the federal bureaucracy itself. After years of confident belief that centralization of authority in the federal government was the key to solving domestic problems, numerous officials and academicians began to question the efficiency and the right of the national government to control the operation of local programs. The Johnson administration was sufficiently concerned with the problem of "federal control" to begin searching out ways to provide federal funds without also mandating rigid and extensive requirements over their use. The two approaches which were tried were the consolidation of related grants-in-aid and the liberalization and simplification of federal regulations. Both attempts at giving the states a greater opportunity to exercise administrative discretion were --ultimately--unsuccessful.

The two major examples of the consolidation of related programs into a uniform "block" grant are the Partnership for Health Act of 1966 and The Omnibus Crime Control and Safe Streets Act of 1968.[37] Both acts were precursors of special revenue sharing. In writing of the reception of Partnership for Health funds in Massachusetts, one scholar has pointed out the deficiencies of the act in the state and its failure throughout the nation:

> The Massachusetts public health department did not use 314(d) [Partnership for Health] funds in the manner intended by Congress. New programs were not initiated. The funds did not contribute to the development of a comprehensive health planning capability at the state, sub-state, or local level. The hoped-for partnership between public and private provider groups never materialized. The lessening of federal grant restrictions enabled the state to set up a 'slush fund' with federal money and to reduce normal state allocations for health services....
>
> In 1970, 100 million dollars was spent on 314(d) programs in the United States, almost $2 million in Massachusetts. There are few if any accomplishments to recount.[38]

The similarly disappointing results of the Law Enforcement Assistance Administration have been widely noted.[39] Originally designed as a program of direct federal assistance to local governments, the administration's proposal was changed by Congress to require state control over the ultimate distribution of law enforcement assistance funds. The result has been that large urban areas where crime problems are most pressing have received proportionately less in assistance than have smaller communities. Much of the money spent has gone for unnecessary equipment purchases, expensive consulting fees, and inflated contracting arrangements.

In an effort to simplify and liberalize funding arrangements for social services, Congress in 1967 passed a set of amendments to the Social Security Act, providing 75 percent federal funding for a wide range of educational and rehabilitative services for all former, current, and potential recipients of income maintenance payments. The concept behind the legislation was that, by providing liberal federal assistance with a minimum of restrictions on how the funds could be spent, states would be encouraged to employ all the resources at their command in a coordinated attack on the problems of poverty, and thereby eventually reduce the welfare rolls. The administrative regulations, which were promulgated by HEW in 1970, were no less vague: "Over and over the directive simply summarized statutory requirements and asserted that a state plan must show an intention to comply."[40] There were no limitations on the use of state budget funds for local matching. There was no restriction on the purchase of services from private agencies, substituting private money for the local contribution. And there was very little guidance on family eligibility (in 1972 HEW approved the New York maximum cut-off on family income of $7500 for a family of four). The result was predictable. New York went from $89 million to $850 million in two years. Mississippi increased its claim for federal matching funds from $1 million to $464 million during the same period. Maryland jumped from $15 million to $418 million.[41] A preliminary tabulation by HEW in July, 1972, indicated that the total cost of the program to the federal government had grown from $746 million in 1971 to an expected level of almost $4.7 billion,[42] although some estimates ranged as high as $6 billion. Closing the open-ended nature of the appropriation became a high priority in the administration, and Congress agreed to accept a non-germane amendment to the proposed general revenue sharing act which, when enacted, limited federal funding to an annual level of $2.5 billion.[43]

Decentralization was also stressed within the federal bureaucracy, particularly during the Nixon administration. One month after his inauguration, President Nixon directed that all federal agencies engaged in the administration of social programs or the provision of assistance to state and local governments should be decentralized to the fullest extent possible. Decentralization meant upgrading the status of the Regional Offices and involving them more closely in the review and approval of assistance applications. HEW Secretary Caspar Weinberger went so far as to pledge "that the authority of the Secretary [will be] delegated within the Department to the maximum extent compatible with law and effective direction and control."[44] While it is too soon to tell how effective intrafederal decentralization will be, there is some reason to believe that--at least within HEW--it is meeting with snags and resistance within the federal establishment.[45] Regional variances in the interpretation of legislation may also result, but this may also serve to facilitate the adaptation of federal programs to local needs.

It was partly in response to the search for a more effective means of realizing federal administrative goals and partly in reaction to what many considered an unwelcome growth of national influence over local concerns that the concept of general revenue sharing was first seriously advanced. In many ways, the legislation which was ultimately enacted carried forward this split in the policy motivation for shared tax revenue. The bipartisan support for revenue sharing was made up of those who were frustrated by the failures of intergovernmental management and viewed the measure as a means of effectively attaining national goals, as well as those who hoped that providing increased funds to local governments would restore greater autonomy to local decision-making. The first legislative attempt to return federal funds to state and local governments on an unrestricted basis came in 1958 when Congressman Melvin Laird introduced a bill in the House of Representatives.[46] It quietly died in committee. The idea of unrestricted grant giving lay dormant for a few years but, with the growth of federal assistance, revenue sharing began to attract more and more adherents throughout the sixties. Fifty-seven bills on revenue sharing were introduced before the 89th Congress, and 101 were proposed before the 90th Congress. Undoubtedly the most important advocate of shared revenue during this period was Walter Heller, who had formulated the basic design of a permanent system of tax sharing before his retirement as Chairman of the Council of Economic Advisors in 1964.

Heller proposed that one to two percent of the federal personal income tax base be set aside each year in a trust fund for unrestricted distribution on a per capita basis to state and local governments.[47] In 1967 this plan would have netted local governments some $5.6 billion in new revenues. The money was to be distributed with a minimum of federal strings; only Title VI of the Civil Rights Act and possibly a prohibition on the use of funds for highways (which had their own trust fund) were to be enforced. Heller emphasized, however, that the enactment of revenue sharing was not to take the place of a continued reliance on categorical grants, where the need for specialized assistance was demonstrable.

> I would stress that revenue sharing or some derivative or modification of it is not to be judged as an all-or-nothing proposition standing by itself. I view it as part of a three-ply solution for a three-ply problem: (1) federal operations for public activities that obviously have to be conducted at the federal level; (2) categorical grants-in-aid for operations at the state-local level involving significant spillover effects and hence a national interest; (3) some form of revenue sharing particularly to support the more exclusively state-local allocative functions, in Musgrave's terms, and to strengthen the fabric of state-local government.[48]

By 1967 Heller had expanded upon his basic plan to include a minimum pass-through requirement from state governments to local.[49]

Intrigued by the concept, Lyndon Johnson established a task force in 1964 to study the Heller proposal. While the task force report was never made public, it is widely believed that it and its chairman, Joseph Pechman (now Director of Economic Studies at the Brookings Institution) recommended some form of unconditional assistance to the states and localities. While the proposal (henceforth to be hyphenated as the Heller-Pechman plan) was quietly abandoned by the Johnson administration as a potential threat to the continuation of the Great Society categorical programs, the Republican party seized the idea and made it a major component of its platform in the 1966 and 1968 elections. Eventually, of course, legislation was introduced by President Nixon on February 4, 1971 which contained the administration's original revenue sharing proposal. After the conversion of Chairman Wilbur Mills of the House Ways and Means Committee in late 1971, the last major stumbling block to the enactment of some form of unconditional federal assistance was removed. After extensive hearings in both the House of Representatives and the Senate and after major revisions had been written into the legislation, general revenue sharing was enacted into law on October 13, 1972.

How General Revenue Sharing Works

The State and Local Fiscal Assistance Act "is extremely complex,"[50] and the implementing regulations run to over twenty pages.[51] Title I of the Act establishes the general revenue sharing program; Title II, which will not be discussed in this analysis, provides for federal collection of state individual income taxes; and Title III sets limits on the amount of federal reimbursement for social services delivered pursuant to Titles IV and XVI of the Social Security Act. Briefly, the major provisions of general revenue sharing are as follows:

---Sets aside over $30 billion in federal funds to be distributed to state and local governments over a period of five years.

--Provides for apportionment among the fifty states and the District of Columbia on the basis of population, tax effort, and inverse per capita income; or on the basis of population, tax effort, inverse per capita income, personal income tax collections, and urbanized population, whichever yields the higher amount.

--Reserves one-third of the apportioned funds for state governments, the rest for local units of general government.

--Prohibits the use of any funds in violation of the Civil Rights Act of 1964 or the Davis-Bacon Act, and forbids the use of shared revenue for the purposes of local matching contributions in other federal assistance programs.

---Requires a maintenance of effort in state-local assistance.

---Restricts the use of local operating and maintenance funds to eight "priority expenditures."

---Authorizes periodic auditing and evaluation by the federal government, and requires the publication and dissemination of spending reports to be filed with the Secretary of the Treasury.

Despite the intention of the original advocates of revenue sharing to establish a permanent program of unconditional grants,[52] the life of the general revenue sharing bill as enacted is five years. It appropriates to a trust fund for distribution to state and local governments a little more than $6 billion a year to be handed out in seven "entitlement periods." In addition, there is a "noncontiguous states adjustment" fund of $23.9 million to offset cost-of-living differentials in Alaska and Hawaii. Payments are to be made by the Secretary of the Treasury not later than five days after the close of each quarter. The act was made retroactive to the beginning of 1972 largely because a number of states had included expected revenue sharing funds in their budget planning for that year.

TABLE 3

REVENUE SHARING APPROPRIATIONS AND DISTRIBUTIONS BY ENTITLEMENT PERIOD

ENTITLEMENT PERIOD	AMOUNT APPROPRIATED ($ THOUSANDS)	AMOUNT AVAILABLE FOR DISTRIBUTION ($ THOUSANDS)
I. January 1, 1972-June 30, 1972	$ 2,652,390	$ 2,650,000
II. July 1, 1972-December 31, 1972	2,652,390	2,650,000
III. January 1, 1973-June 30, 1973	2,989,890	2,987,500
IV. Fiscal Year 1974	6,054,780	6,050,000
V. Fiscal Year 1975	6,204,780	6,200,000
VI. Fiscal Year 1976	6,354,780	6,350,000
VII. July 1, 1976-December 31, 1976	3,327,390	3,325,000
Total	$30,236,400	$30,212,500

Eligible recipient governments include all fifty states, the District of Columbia, Indian tribes and Alaskan native villages, and all local units of "general government." Although there were more than 80,000 sub-state governments performing some local service delivery in 1967,[53] the act is written so as to exclude special districts which provide only limited services to their constituents--such as water, sanitation, library, school districts, and the like. For the purposes of the act, the District of Columbia is treated both as a state government and as a unit of local government. All in all, 33,076 Planned Use Reports were filed with the Office of Revenue Sharing.[54]

The complexity of the apportionment formulas is reflected in the fact that 3,800 formal objections to the initial allotments were made to the Secretary of the Treasury.[55] The design of the state-by-state allocations was arrived at partly as a result of political trade-offs within the Congress, and partly in an effort to stimulate state tax efforts and equalize the availability of revenue. The total amount to be distributed to each state for any given entitlement period is determined on the basis of either the "three-factor" formula or the "five-factor" formula. The latter was originally proposed by the House Ways and Means Committee as the exclusive determinant of each state's share. As it was written into the final bill, the "five-factor" formula determines roughly two-thirds of a given state's entitlement on the basis of population, inverse per capita income, and urbanized population, each factor weighted equally. The remaining one-third is apportioned on the basis of general tax effort and income tax collection. The "three-factor" formula was the allocation mechanism endorsed by the Senate Finance Committee, a body "dominated by representatives of the poorer, less urban states of the

South and West."[56] It divides shared revenue among the states on the basis of population, general tax effort, and inverse per capita income. The Conference Committee, seeking to find the best of both worlds, adopted the House version and the Senate version, providing that each state would receive the larger of the two sums, and it was in this form that the measure was enacted.

Once the total amount to be disbursed to a state is known, one-third is set aside for the use of the state government, the rest is distributed to the local governments within the state. The allocations to states for entitlement periods 1-2 are given in Table 4. The local government sum is first divided among the counties of the state on the basis of population, general tax effort, and inverse per capita income, although the legislation permits a state legislature to change the formula with respect to the weight to be given these variables so long as the new rule applies equally throughout the state and will be in effect for the life of the general revenue sharing act. The county government then receives an amount equal to its share of all of the taxes collected within the county. The remainder is distributed among the units of local government within the county area on the basis of population, general tax effort, and inverse per capita income. The act also contains limitations on the maximum and minimum amounts to be allotted to county and local governments: no more than 145 percent and no less than 20 percent of the per capita local government amount may be given to any one locality. In addition, no local government may receive more in shared revenue than fifty percent of its adjusted taxes and intergovernmental transfer receipts. If a locality waives its portion of shared revenue or is entitled to less than

TABLE 4

DISTRIBUTION OF SHARED REVENUE FOR CALENDAR YEAR 1972 BY TYPE OF GOVERNMENTAL UNIT (IN THOUSANDS OF DOLLARS)

STATE	ALL GOVTS.	STATE	COUNTIES	MUNICIPALITIES	TOWNSHIPS	INDIAN RESERVATIONS
Alabama	$ 87,820	$ 29,288	$ 23,778	$ 34,754	$ -	$ -
Alaska	5,843	2,142	135	3,419	-	147
Arizona	46,687	16.239	13,406	15,736	-	1,506
Arkansas	52,877	19,052	22,114	11,711	-	-
California	543,138	181,152	214,642	147,229	-	115
Colorado	52,792	17.528	13,823	21,407	-	34
Connecticut	65,271	21,735	-	23,913	19,623	-
Delaware	15,577	6,256	5,333	3,988	-	-
Dist. of Colum.	23,191	-	-	23,191	-	-
Florida	142,279	47,435	25,795	69,032	-	17
Georgia	106,288	35,454	39,985	30,849	-	-
Hawaii	22,991	7,664	3,700	11,627	-	-
Idaho	20,531	6,882	7,862	5,712	-	75
Illinois	265,210	88,596	41,831	100,846	23,837	-
Indiana	110,131	36,792	19,552	46,092	7,695	-
Iowa	73,202	24,412	29,095	37,603	-	11
Kansas	50,586	17,395	18,490	13,642	2,052	7
Kentucky	84,431	35,185	22,112	26,234	-	-
Louisiana	118,819	41,182	11,427	66,210	-	6
Maine	29,996	10,297	1,288	17,282	1,087	42
Maryland	103,889	35,222	38,720	29,947	-	-
Massachusetts	160,147	54,672	6,520	94,787	4,168	-
Michigan	217,483	74,440	42,042	99,460	1,508	25
Minnesota	102.804	35.299	37.473	25,147	4,679	206
Missippi	85,820	29,737	36,756	29,277	-	50
Missouri	94,992	32,618	22,311	38,312	1,751	-
Montana	19,312	6,808	9,019	3,020	-	465
Nebraska	37,562	12,892	12,703	11,051	865	51
Nevada	11,020	3,819	4,726	2,418	-	60
New Hampshire	16,077	5,502	1,375	4,468	4,732	-
New Jersey	161,636	55,270	41,221	44,334	20,811	-
New Mexico	30,424	11,420	9,421	8,219	-	1,364
New York	571,147	190,428	88,483	250,067	42,032	137
N. Carolina	131,772	45,111	48,039	43,032	-	101
North Dakota	21,025	8,355	7,526	2,865	1,975	304
Ohio	207,290	70,958	43,915	78,174	14,243	-
Oklahoma	57,069	19,545	15,010	22,205	-	309
Oregon	51,345	17,585	13,025	20,677	-	58
Pennsylvania	269,100	92,190	8,145	140,130	28,635	a
Rhode Island	23,437	9,015	-	10,127	4,295	-
S. Carolina	69,926	24,469	25,054	20,403	-	-
South Dakota	22,839	8,002	9,482	3,603	1,203	549
Tennessee	95,899	32,786	18,825	44,288	-	-
Texas	240,424	82,330	60,750	97,327	-	17
Utah	29,495	10,146	10,100	9,098	-	1[illegible]1
Vermont	14,204	4,882	125	8,562	635	-
Virginia	103,140	29,269	33,963	39,907	-	1
Washington	75,346	25,860	23,368	25,926	5	187
West Virginia	50,365	23,254	13,750	13,361	-	-
Wisconsin	128,910	44,187	44,550	32,432	7,614	127
Wyoming	9,566	2,315	4,910	2,248	-	93
TOTAL U.S.	$5,131,325	$1,742,472	$1,245,675	$1,965,349	$193,4[illegible]5	$6,218

[a] Less than $500.

Source: Advisory Commission on Intergovernmental Relations, *Federal-State-Local Finances: Significant Features of Fiscal Federalism* (Washington: Government Printing Office, February, 1974) pp. 65-66.

$200, then that sum is reallotted to the county government within which the locality is situated.

All of this is very complicated, and the determination of allotments would have been impossible without the aid of computers. Each of the factors chosen represents the embodiment of a particular policy desire on the part of the Congress. Population, the most basic of the apportionment devices, is justified on the basis that the extent of government service delivery is everywhere partly a function of the number of people who will benefit from the operations of the government, and that equity requires that every government should receive some portion of the revenue sharing pool. Urbanized population was added by the House of Representatives to the original administration proposal in the belief that the demands of urban areas are sufficiently pressing and the costs of metropolitan government are high enough to warrant special consideration for cities. Inverse per capita income is intended to serve primarily as an equalization device; poorer areas will have a greater difficulty in raising revenues--and often a greater demand for services--than wealthier communities, and they should be compensated accordingly. The tax incentive features of the act are contained in the tax effort and personal income tax collection factors. The idea behind the two was that governments should be rewarded for maximizing their own revenue efforts, and that the individual income tax was to be considered the preferred method of raising revenues.

Each one of the factors taken into account in determining entitlements has an eminently defensible policy objective. The amalgam, however, makes very little sense from the standpoint of incentive or equalization.

By its effort to include every consideration, the Congress has provided a distributive formula, but one in which the individual factors are diluted in their effect by the presence of the others. It is entirely conceivable, for example, that an increase in the personal tax collections of a small state would result in an upward adjustment in its shared revenue of only a few thousand dollars. Then too, if every state were to improve its revenue collection process an equivalent amount, the relative entitlements would remain the same; there would be no bonus for any state. As far as the equalizing effect of the inverse per capita income factor, Table 5 demonstrates that there is only a very weak correlation between shared revenue entitlements and inverse per capita income. While revenue sharing is a bit more equalizing than categorical grants-in-aid, which are slightly positive in their correlation to per capita income, its total influence on the distribution of income is likely to be small.

Shared funds are distributed to state and local governments with a minimum of restrictions on how they can be used. No recipient government may, however, use any part of its revenue sharing to fund activities which discriminate against any person on the basis of race, color, national origin, or sex (except for Indian tribes and Alaskan native villages which are required by the act to spend their funds "for the benefit of members of the tribe or village"). If the Secretary of the Treasury finds that revenue sharing funds have been expended in a discriminatory manner, he is authorized to seek voluntary compliance with the provisions of the act and, if that fails, to notify the Attorney General and take whatever other steps are deemed necessary, including withholding or terminating future payments and, in some instances,

TABLE 5

RANKING OF STATES BY PER CAPITA INCOME AND AID UNDER ALTERNATIVE GRANT DISTRIBUTIONS

		GRANTS PER CAPITA DISTRIBUTED BY:		
	PER CAPITA INCOME (1971)	POPULATION WEIGHTED BY INVERSE OF PER CAPITA INCOME	CATEGORICAL GRANTS-IN-AID	REVENUE SHARING ACT OF 1972
Mississippi	51	1	5	1
Arkansas	50	2	20	19
Alabama	49	3	9	28
South Carolina	48	4	30	21
West Virginia	47	5	7	12
Louisiana	46	6	15	4
Kentucky	45	7	19	25
Tennessee	44	8	24	32
North Dakota	43	9	10	3
North Carolina	42	10	35	26
New Mexico	41	11	4	9
Utah	40	12	18	17
Idaho	39	13	25	13
Maine	38	14	21	8
South Dakota	37	15	13	2
Montana	36	16	6	18
Oklahoma	35	17	13	41
Georgia	34	18	25	36
Vermont	33	19	8	5
Texas	32	20	37	45
New Hampshire	31	21	36	44
Wyoming	30	22	3	13
Florida	29	23	50	48
Virginia	28	24	37	41
Arizona	27	25	32	23
Iowa	26	26	47	26
Missouri	25	27	34	49
Wisconsin	24	28	48	11
Oregon	23	29	12	31
Indiana	22	30	51	47
Minnesota	21	31	31	21
Nebraska	20	32	46	29
Colorado	19	33	21	34
Rhode Island	18	34	29	30
Kansas	17	35	39	40
Pennsylvania	16	36	41	37
Washington	15	37	27	43
Ohio	14	38	48	50
Michigan	13	39	43	32
Maryland	12	40	41	23
Delaware	11	41	39	15
Massachusetts	10	42	27	16
California	9	43	16	20
Alaska	8	44	2	50
Illinois	7	45	45	35
Hawaii	6	46	17	9
New Jersey	5	47	44	38
Nevada	4	48	23	38
New York	3	49	11	6
Connecticut	2	50	33	45
District of Columbia	1	51	1	7
Average Rank				
Lowest 10 States	47	6	17	16
Middle 10 States	27	27	35	33
Highest 10 States	6	47	22	47

Source: Richard Am Musgrave and Peggy B. Musgrave, Public Finance in Theory and Practice (New York: McGraw-Hill, Inc., 1973), pp. 644-645.

seeking the repayment of sums already disbursed. The major instances of noncompliance lie in the racial hiring practices of some local police and fire departments which receive revenue sharing money. Enforcement is a difficult matter, however, largely because the compliance staff is small and it is a very arduous task to trace the actual allocation of funds once they leave the federal government. Of the few complaints which have arisen thus far, perhaps the major incident involved the threatened withholding of $250,000 to the town of Montclair, New Jersey.[57]

Section 123(a)(6) of the act stipulates that, in any construction project where 25 percent or more of the cost is financed with shared revenue, laborers and mechanics must be paid at the wage rate prevailing in the locality in accordance with the Davis-Bacon Act.[58] In addition, any recipient government which funds 25 percent or more of a particular activity out of revenue sharing must compensate all employees of that activity according to the same wage scale.

In order to guard against a net loss in revenues for local governments, the revenue sharing act requires that state governments maintain the level of state-local assistance in effect for fiscal year 1972. If the state's degree of assistance drops below that level, the Secretary of the Treasury is authorized to decrease the allotment to the state government by an equivalent amount, after notice and opportunity for hearing, and to transfer the amount withheld from the Revenue Sharing trust fund to the general fund of the Treasury. Exceptions are to be made in those instances when the state government assumes responsibility for a category of expenditures previously borne by local governments or when the state confers new taxing powers upon local units of government.

By establishing an absolute measure of state-local assistance, however, the act fails to correct for the possibility that a state may actually decrease the real level of local assistance by failing to adjust for the pressures of inflation. Thus, merely by maintaining assistance payments in effect in 1972, a state government may leave the localities within its jurisdiction in worse shape than they were before and still not trigger the enforcement provisions of the act. A better indicator of a state's maintenance of effort would have been the percentage of state revenues allotted to local assistance. In addition, the provision of the act which returns withheld payments to the general fund of the Treasury creates the anomalous situation of penalizing the local governments for the wrongful actions of the state. It would seem a more equitable solution to add the total of the state's reduced shared revenue to the amounts available for distribution to the localities. Finally, the act forbids the use of shared revenue money to finance any state or local matching contributions required in other federal grant-in-aid programs.

There are no restrictions in the legislation which limit the use of shared revenue by state governments. Local governments, however, are required to expend the funds which they receive under the act for any of nine "priority expenditure" categories. These disbursements may include "ordinary and necessary" capital expenditures, or operating and maintenance expenses for (1) public safety (including law enforcement, fire protection, and building code enforcement), (2) environmental protection (including sewage disposal, sanitation, and pollution abatement), (3) public transportation (including transit systems and streets and roads),

(4) health, (5) recreation, (6) libraries, (7) social services for the poor or aged, and (8) financial administration. It seems odd that legislation which seeks to strengthen local decision-making should place limitations on the types of decisions which can be made with respect to expenditure categories, odder still that such limitations should apply only to local governments and not to states as well. The intent of the framers of the act can perhaps best be inferred, not from an examination of the allowable expenditures, but from a listing of the major government operations effectively excluded by the restrictions: education, welfare payments, and general government expenses. The Congress may have indicated its desire not to have revenue sharing funds swallowed up by the enormous demands of school teachers and welfare consumers, or it may have made a value judgment as to the utility of these government services. In any case, whether the priority expenditure categories are even enforceable is an entirely separate inquiry, and one that will be explored in the next section of this paper.

The Impact of Revenue Sharing on State and Local Governments

The first thing to be noted about the impact of general revenue sharing is that there has been a tremendous diversity among the 37,716 eligible jurisdictions in the types of expenditures which have been made. Indianapolis built a sports stadium with its money; Chicago spent its funds on police and fire department salaries; Colorado invested its shared revenue in 360-day certificates of deposit; McRae, Georgia fenced in the city cemetery; and Morganfield, Kentucky bought a bulldozer.[59] State governments, however, overwhelmingly allocated their portion of the funds to education (65 percent of amounts spent), while local governments

TABLE 6

DISTRIBUTION OF 1972 SHARED REVENUE

TYPE OF JURISDICTION	RECIPIENT JURISDICTIONS		1972 SHARED REVENUE	
	NUMBER	PERCENT	AMOUNT ($ MIL.)	PERCENT
States	50	0.1	1,777	33.5
Counties	3,047	8.1	1,219	23.0
Municipalities	18,041	47.8	2,037	38.4
Townships	16,255	43.1	261	4.9
Indian tribes	323	0.9	6	0.1
Total	37,716	100.0	5,301	100.0

Source: Richard P. Nathan, "Statement on Revenue Sharing," Hearings before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, 93rd Cong., 2d Sess. (June 5, 1974), p. 14 of processed statement.

tended to emphasize public safety (35 percent). The detailed spending patterns for state and local governments as reflected in the Actual Use Reports filed with the Office of Revenue Sharing are given in Tables 6 and 7.

A number of interesting conclusions can be drawn from an examination of the Actual Use Reports. First, states invested their shared revenue to a very great extent, and certainly more heavily than did local governments. Out of $1,747 million distributed to state governments for 1972, over 62 percent had been invested by March 31, 1973, earning interest of more than $21 million.[60] There were no plans at all to spend a half billion dollars of the total amount.[61] The original legislation required that all shared revenue be used, obligated, or appropriated within a "reasonable period;" the implementing regulations stipulated that 24

TABLE 7

REPORTED ACTUAL USE OF GENERAL REVENUE SHARING: STATE GOVERNMENTS--ENTITLEMENT PERIODS 1-3

CATEGORY	OPERATING AND MAINTENANCE		CAPITAL		TOTAL	
	AMOUNT ($ MIL.)	PERCENT	AMOUNT ($ MIL.)	PERCENT	AMOUNT ($ MIL.)	PERCENT OF TOTAL FUNDS
Public Safety	$ 15.1	76	$ 4.9	24	$ 20.0	2
Environmental Protection	1.3	18	6.1	82	7.4	1
Public Transportation	45.5	82	10.1	18	55.6	5
Health	28.0	91	2.7	9	30.7	3
Recreation/ Culture	1.4	38	2.3	62	3.7	a
Social Services	57.5	94	3.7	6	61.2	6
Financial Administration	18.5	100	-	-	18.5	2
Education	643.0	97	21.3	3	664.3	65
Multi-purpose/ General Government	-	-	5.9	100	5.9	1
Housing/Community Development	-	-	1.1	100	1.1	a
Economic Development	-	-	2.2	100	2.2	a
Other	148.8	94	3.1	2	151.9	15
GRAND TOTAL	$959.1	94	$63.4	6	$1022.5	100

[a] Less than 0.5%

Source: U.S. Department of the Treasury, Office of Revenue Sharing, General Revenue Sharing--The First Actual Use Reports, prepared by David A. Caputo and Richard L. Cole (Washington: Government Printing Office, March 1, 1974), pp. 8-9.

TABLE 8

REPORTED ACTUAL USE OF GENERAL REVENUE SHARING: LOCAL GOVERNMENTS--ENTITLEMENT PERIODS 1-3

CATEGORY	OPERATING AND MAINTENANCE		CAPITAL		TOTAL	
	AMOUNT ($ MIL.)	PERCENT	AMOUNT ($ MIL.)	PERCENT	AMOUNT ($ MIL.)	PERCENT OF TOTAL FUNDS
Public Safety	$481.4	75.8	$153.9	24.2	$1793.7	100.00
Environmental Protection	91.2	50.5	89.3	49.5	180.5	10.06
Public Transportation	138.4	39.3	222.9	61.7	361.3	20.14
Health	71.4	52.8	63.9	47.2	135.3	7.54
Recreation/ Culture	33.1	29.6	78.9	70.4	112.0	6.24
Libraries	18.4	100.0	-	-	18.4	1.03
Social Services	30.6	100.0	-	-	30.6	1.71
Financial Administration	51.5	100.0	-	-	51.5	2.87
Education	a	-	22.9	100.0	22.9	1.28
Multi-purpose/ General Government	a	-	177.8	100.0	177.8	9.91
Social Development	a	-	9.2	100.0	9.2	0.51
Housing/Community Development	a	-	24.9	100.0	24.9	1.39
Economic Development	a	-	9.3	100.0	9.3	0.52
Other	a	-	24.7	100.0	24.7	1.38
GRAND TOTAL	$916.0	51.1	$877.7	48.9	$1793.7	100.00

[a] Operating and maintenance expenditures for these categories are not allowed under the act.

Source: Author's computations, drawn from U.S. Department of the Treasury, Office of Revenue Sharing, General Revenue Sharing--The First Actual Use Reports, prepared by David A. Caputo and Richard L. Cole (Washington: Government Printing Office, March 1, 1974), pp. 10-13.

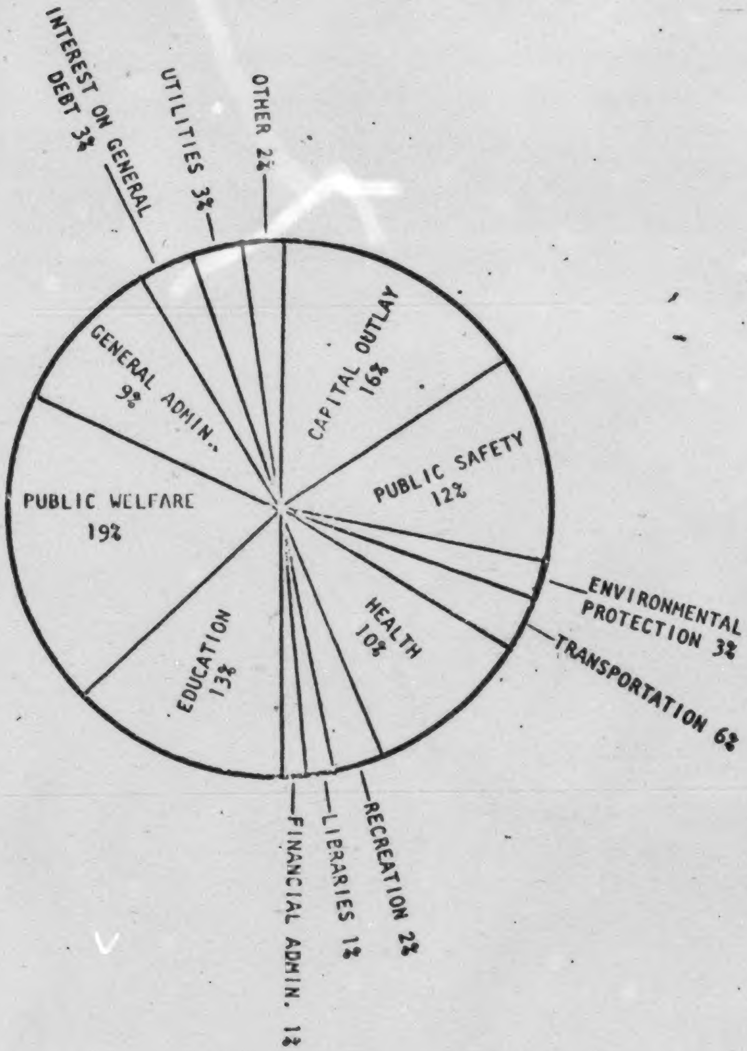
months from the end of the applicable entitlement period would be considered "reasonable."[62] The reason for the delay lies in the fact that the appropriations processes of many states (particularly those with biennial legislatures) are very cumbersome. Nonetheless, in light of the enormous amount held back from expenditure and non-liquid nature of many of the investments (time deposits, certificates of deposit), the conclusion is almost irresistible that a number of state governments are in no hurry to spend their revenue sharing funds. The anomaly of the situation is compounded by the fact that,of the investments made,U.S. Treasury notes were by far the favored security. Thus, the federal government is placed in the position of giving money to state governments, only to have them lend it back to the U.S. government, and then paying interest on the funds twice! By contrast, local governments had expended over 40 percent of their shared revenue by June 30, 1973.[63] A better means of insuring that recipient governments actually employ their revenue sharing to expand the quality of service delivery would be to insist that all funds be obligated within one year of the convening of the appropriate legislative body.

Second, local governments used a very high percentage of the funds available to them for capital projects. The explanation for this is threefold: (a) shared revenue is "free" money, raised outside normal revenue channels, not obligated to ordinary budget pressures and the demands of interest groups, and thus available for major, one-time construction projects; (b) by emphasizing capital expenditures, local officials can circumvent the priority categories (over 30 percent of the capital funds were spent for non-priority purposes) and provide highly visible and popular results; and (c) because many local leaders are uncertain whether revenue sharing will be extended beyond its expected termination at the end of 1976,[64] they are justifiably wary of launching major new service programs which will have to be supported with local funds after shared revenue is withdrawn.

Third, while much attention has been drawn to the types of expenditures made by local governments, meaningful analysis of spending patterns is very difficult for a variety of reasons. Taking the Actual Use Reports at face value for the moment, some observations should be made about the two categories which have elicited the most critical attention: public safety and social services for the poor and aged. At first glance, it would appear that local governments are committing a disproportionate percentage of their shared revenue to police and fire protection, while reserving only a very small amount for social services. Figures 2 and 3, which schematically depict "before" and "after" spending patterns for 250 local jurisdictions (including the 50 counties and the 50 cities which received the largest individual checks), tend to bear out this conclusion. The circumstance that payments for the first three entitlement periods were sent out all at once, however, has unavoidably distorted the initial expenditure decision process. It seem unrealistic, for example, to assume that localities will continue indefinitely to allot, principally for police salaries, an amount equal to over 15 percent of their normal public safety budgets on top of ordinary annual increases. More recent analyses, examining the impact of revenue sharing on cities with populations over 50,000, indicate that the public safety percentage may well be on the decline.[65]

FIGURE 2

USES OF FUNDS PRIOR TO REVENUE SHARING

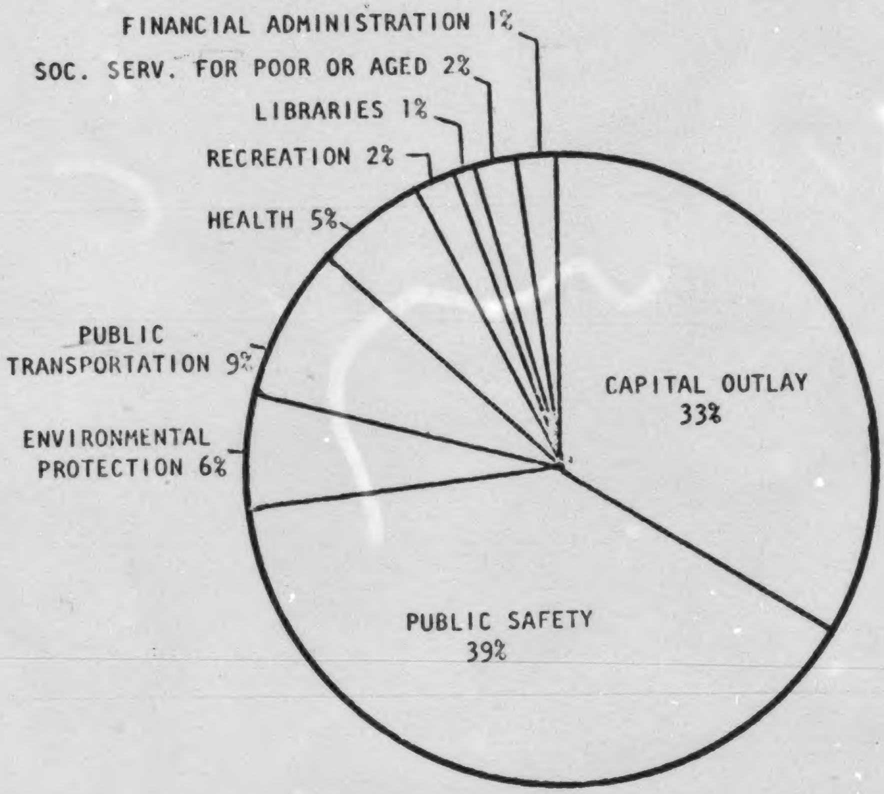


Total 1972 expenditures by 250 governments--$33.9 billion.

Source: Revenue Sharing: Its Use By and Impact on Local Governments, General Accounting Office, April 25, 1974, p. 20.

FIGURE 3

USES OF REVENUE SHARING FUNDS AS OF JUNE 30, 1973



Revenue sharing funds appropriated by 250 local governments--$1.4 billion.

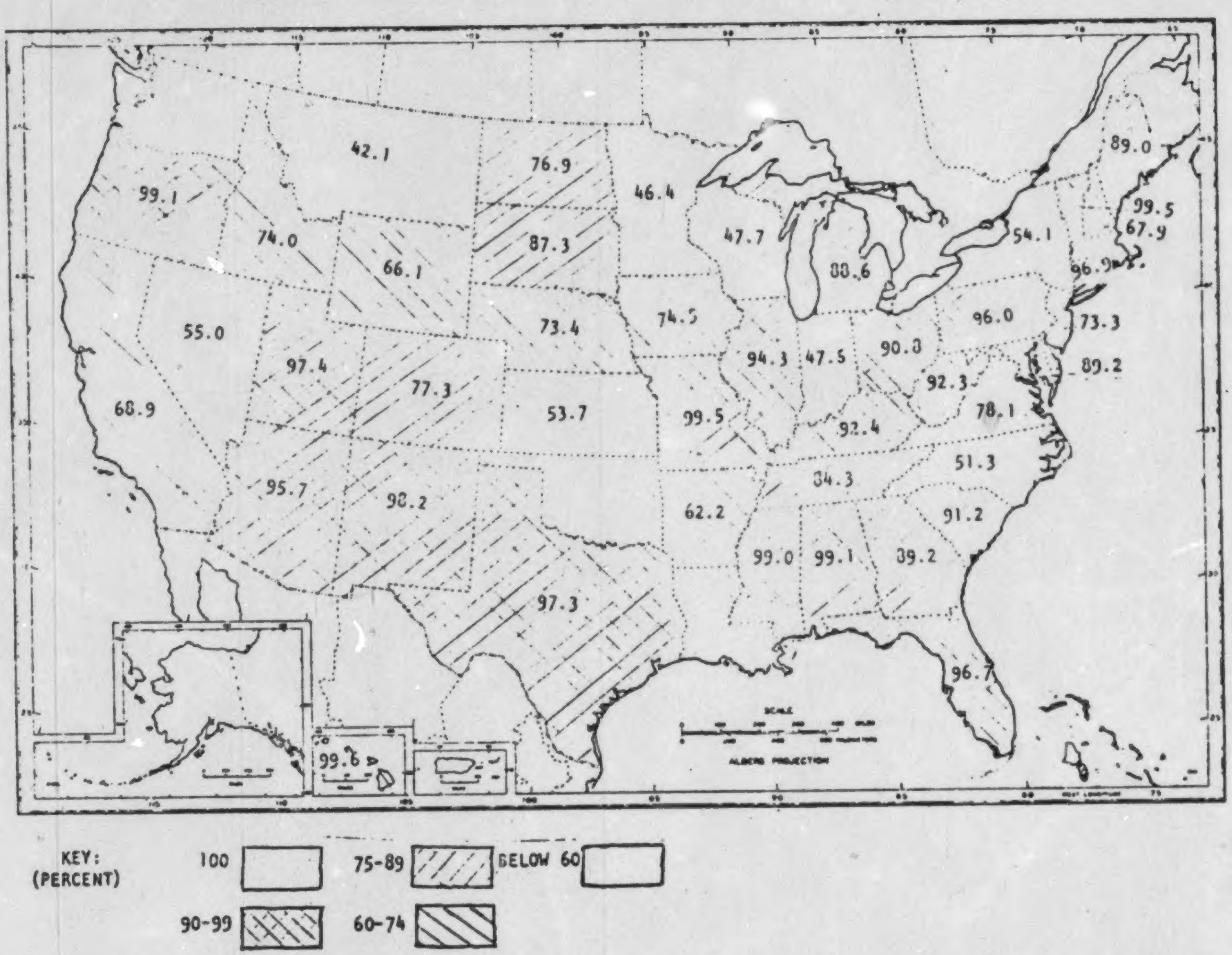
Source: Revenue Sharing: Its Use by and Impact on Local Governments, General Accounting Office, April 25, 1974, p. 20.

In order to understand the ramifications of general revenue sharing for social services programs for the poor and aged, it is necessary to go beyond the reported expenditure categories to an examination of the legal constraints surrounding local poverty programs and the income distribution of general government operations. If it is assumed that local governments will spend their shared revenue on operating and maintenance expenses in the same manner that they spend the funds they receive from taxes and intergovernmental transfers (and, indeed, this appears to be the likeliest model of resource allocation under revenue sharing), then the share of the poor will be much less than under the federal categorical grant programs. Furthermore, the slight effect which revenue sharing has on the equalization of income among states is largely cancelled out by the fact that poorer states tend to allocate a smaller-than-average percentage of their budgets to programs which contribute directly to the well-being of the poor. "[P]oor people will receive but a small fraction of the benefits from the more than $30 billion of untied funds that state and local governments will be receiving until 1977... Moreover, if revenue sharing is ultimately financed by a proportional reduction in categorical grant programs, the costs of this program will be borne largely by poor individuals."[66] This situation is compounded by the fact that state governments are increasingly assuming from local governments the financing and operation of public assistance and social services programs. Only nineteen states continue to operate state supervised but locally administered public assistance programs. Thus, there may be little opportunity for (and sometimes prohibitions against) many local governments to assume the delivery of social services. Figure 4 is a map which depicts the financing of public assistance by state, and it reveals that fully half of all state governments pay 90 percent or more of the costs of social services and income maintenance operations within their jurisdictions from internal revenues. When Congress decided to exclude general welfare programs from the revenue sharing act, it effectively guaranteed that the distribution of local government services to the disadvantaged would be diminished.

A discussion of the expenditure patterns of state and local governments could be made with more confidence if it were possible to know that the Actual Use Reports accurately reflect the true impact of general revenue sharing. Unfortunately, that does not appear to be the case. The difficulty in tracking the spending of shared revenue lies in the fact that the budgetary process must be considered as a totality: as an exercise in the allocation of all available resources. The contribution of revenue sharing funds is likely to be hidden by changes in budget priorities, by shifts in the amount and type of other revenues, and by the fact that shared revenues ordinarily constitute only an insignificant proportion (typically about 4 percent) of total available revenue. The reported disbursements of shared revenue do not necessarily depict the true impact of the funds on state and local government operations because they fail to allow for the displacement effect of making additional resources available. Thus, it is very easy for a locality to allocate its funds according to the "priority expenditure" categories, only to displace money which ordinarily would have gone to finance the same activities. These "freed" funds may then be expended to balance the budget, reduce taxes, avoid borrowing, or subsidize non-priority

FIGURE 4

PERCENTAGE OF STATE AND LOCAL EXPENDITURES FOR PUBLIC ASSISTANCE, FROM OWN REVENUE SOURCES, FINANCED BY STATE GOVERNMENTS, BY STATE, 1970-71


42.1
76.9
46.4
99.1
74.0
66.1
87.3
47.7
88.6
54.1
89.0
99.5
67.9
96.9
55.0
97.4
77.3
73.4
74.5
94.3
47.5
90.0
96.0
73.3
89.2
92.3
68.9
53.7
99.5
92.4
78.1
51.3
34.3
95.7
98.2
62.2
91.2
99.0
99.1
39.2
97.3
96.7
99.6
SCALE
ALBERS PROJECTION
KEY:
(PERCENT)
100
75-89
BELOW 60
90-99
60-74

SOURCE: Advisory Commission on Intergovernmental Relations, Federal-State-Local Finances: Significant Features of Fiscal Federalism (Washington: Government Printing Office, February, 1974) p. 117. (Author's computations.)

expenditures. It was this substitution effect which caused the General Accounting Office to characterize the "priority expenditure" categories as "illusory."[67] The blunt fact is that no one knows exactly where revenue sharing funds are going.

An illustration of the displacement process is the attempted use of shared revenue by the city of Atlanta, Georgia for tax reduction. The Board of Aldermen of that city voted in early 1973 to commit all of Atlanta's $10,500,000 to pay for firemen's salaries. The Board then shifted $4,500,000 of the funds displaced from the fire department budget into a pool to be used to finance rebates on water and sewer bills. A group of Atlanta citizens brought suit in a federal district court charging that the Board's action was contrary to the spending regulations of the general revenue sharing act.[68] The court agreed with the plaintiffs and permanently enjoined the city from indirectly using shared revenues to reduce water and sewer rates. The court stated that "an attempt to avoid the clear restrictions of a federal statute cannot be accepted.... courts have long made it clear that Congressional intent cannot be overridden by sham transactions."[69] Whatever the precedential value of Mathews v. Massel, it seems clear that subtler attempts to circumvent the provisions of the act can be undertaken with impunity. The Office of Revenue Sharing has consistently reaffirmed its position that local governments may use displaced funds in any manner they wish. Most alarming, however is the conclusion that "[o]ther requirements applicable to the direct uses of funds, such as the Davis-Bacon provision, the prevailing wage rate provision for local government employees, and the nondiscrimination provision, can apparently be avoided either by budgeting the funds to reduce potential problems or by displacing funds."[70]

There are two potential indicators of the degree to which substitution is taking place. One is the effect which revenue sharing is having on state and local taxation and on borrowing. The second is the extent of new or expanded service delivery which has been made possible by the additional funds. As to the first, the Actual Use Reports reveal that 44.7 percent of the state and local officials responsible for administering revenue sharing funds believe that the program will help in reducing taxes or preventing tax increases.[71] Almost a third (32.6 percent) feel that shared revenue will assist in avoiding or lessening increases in government debt.[72] After some confusion as to the intent of the legislation, the Office of Revenue Sharing decided that the use of entitlement funds for the repayment of debt is a permissible expenditure if: (a) funds are not used to pay any interest incurred, (b) the debt was originally contracted for priority expenditures, and (c) the proceeds from the debt were spent on or after January 1, 1972.[73] To conclude that revenue sharing is being used to reduce taxes or repay debts is not to charge that the funds are necessarily being misspent. Many of the supporters of the act have expressed their belief that revenue sharing should be used to reduce local tax pressures.

The Brookings Institution has estimated the extent of new service delivery made possible by shared revenue for sixty-three selected jurisdictions. Their study has determined that "local governments applied more than half of their shared revenue (57.5 percent) to new purposes and the rest in various different ways to substitute for funds that would have been raised from other sources or from program cuts. The average state government...used 35.7 percent of its revenue sharing allocations in this period [January-June, 1973] for new spending and 64.3 percent for various substitution purposes."[74] Table 9 lists the details of the study's findings. Another analysis has found that only slightly more than a quarter of major city governments plan to use their revenue sharing funds to launch new programs, reserving over 71 percent of their allocations for existing operations.[75] Thus, it seems clear from an examination of the available data, that the degree to which general revenue sharing will result in improved government services at the state and local level will not be substantial--certainly less so than under the categorical grant-in-aid programs. The conclusion must be drawn that a significant percentage of distributed funds are being systematically diverted by state and local officials into tax reductions and non-priority operations. The "priority expenditure" categories as they are now defined by the act are unenforceable and should be done away with. Not only are they at variance with the underlying philosophy of the legislation, but, worse, they are encouraging local officials to mask the true significance of their budget decisions. If Congress is determined to return unrestricted funds to local governments, it must accept the fact that there will be very little accountability.[76]

It is interesting to note that general revenue sharing embodies a major shift in the political constituencies of federal assistance programs. Whereas categorical grants are oriented toward the ultimate consumer and are intended to be targeted on a specific group, revenue sharing profits first-and-foremost the government official who receives funds under the program. His political power is enhanced; his budgetary discretion is widened. It should come as no surprise, therefore, to learn that the

TABLE 9

USES OF REVENUE SHARING BY SAMPLE JURISDICTION; MEAN PERCENTAGE BASIS BY NET EFFECT THROUGH JUNE 1973

	MEAN PERCENTAGES	
	LOCAL	STATE
New Spending:	57.5	35.7
New Capital	46.0	21.6
Expanded operations	10.8	11.6
Increased pay and benefits	0.8	-
Unallocated	-	2.5
Substitutions:	42.5	64.3
Federal aid restoration	0.3	3.0
Tax cut	3.5	13.2
Tax stabilization	13.8	-
Program maintenance	12.6	15.3
Borrowing avoidance	9.5	3.3
Increased fund balance	2.7	4.5
Other	0.1	-
Unallocated	-	25.0
Total	100.0	100.0

Source: Richard P. Nathan, "Statement on Revenue Sharing," Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, 93rd Cong., 2nd Sess. (June 5, 1974), p. 7 of processed statement.

reporting and publication requirements of the act have not led to an appreciable upgrading in the quality of public discussion about the nature of budget choices. The regulations stipulate that each recipient government must publish copies of its Planned and Actual Use Reports in newspapers of general circulation and make other copies available for public inspection.[77] Despite the ostensible intent of the provisions to facilitate public understanding of the revenue sharing allocation process, it does not appear from an analysis of the expenditure patterns that local community groups are having much success in influencing budget decisions. As one city manager told a coalition of local citizens, "general revenue sharing is for me to use to keep the tax rate down. Special revenue sharing, when and if it passes, is for you to decide how to use."[78] It seems that the "new American Revolution" is not about to be sparked at City Halls and County Courthouses.

Conclusion: The Prospects for Fiscal Federalism

In order to adequately assess the ultimate impact of revenue sharing on the structure of American federalism and the attainment of national goals, it is necessary to examine the underlying policy justifications for a program of unrestricted federal assistance and determine whether general revenue sharing has in fact fulfilled those stated objectives. While it is possible to rationalize the program on many grounds, there are three major assumptions about the dynamics of the federal system which are implicit in the revenue sharing legislation.

---State and local governments are presently in the midst of a "fiscal crisis" requiring an extensive program of unconditional federal aid to be used for general government support.

---Federal grant restrictions unduly hamper the operations of state and local governments. The delivery of public services is most efficiently carried out when local officials are free to exercise a maximum amount of discretion in designating program priorities and designing delivery systems.

---An increase in available local revenues entails an enlargement of popular democratic control and contributes to a furtherance of local accountability.

Much attention has been drawn in the last decade to the financial plight of large urban areas.[79] While it is undisputed that a number of cities continue to have severe financial difficulties, the available evidence suggests that the overall situation has dramatically improved since the end of the sixties. Not only have local revenues increased, but the pressures on local government budgets, which rocketed during the last decade as urban programs expanded the scope and depth of their coverage, seem to have moderated. For one thing, service delivery in a number of areas had begun to approach saturation levels. School populations have dropped and welfare caseloads have stabilized.[80] Second, municipal salary scales have largely reached parity with wage rates for comparable private sector employment, and large rises in the next few years do not seem likely. Third, the federal government has recently assumed the cost of financing welfare payments to the aged, blind, and disabled and may soon undertake a wider role in the provision of health care. These initiatives alone will save state and local governments several billion dollars a year.[81]

On the state level, the fiscal prospects are even more optimistic. State tax collections in fiscal year 1973 increased 13.5 percent over the year before to a new level of $67.9 billion.[82] "According to the Survey of Current Business, states and local governments had an 'operating fund' surplus of $3.9 billion in the first quarter [of 1973], $1.4 billion in the second quarter and a small deficit in the third. The Survey predicted, however, the States would end the year with a surplus, although smaller than the $9.9 billion of 1972. The 'operating fund' statistics exclude social insurance funds which distort the picture."[83] But if the revenues derived from insurance trusts systems and liquor stores are included in the calculation, then state governments had surpluses in nine years out of the past decade.[84] In addition, it does not appear that state tax collection systems have exhausted their revenue generating potential. The Advisory Commission on Intergovernmental Relations has published an index of the relative fiscal capacities and revenue efforts of the fifty states,[85] and it has determined that if each state made a tax effort midway between the highest effort state in the nation (New York) and the highest effort state in its region, an additional $25.6 billion in aggregate revenues would be forthcoming.[86] While such indicators must be interpreted with considerable caution,[87] the conclusion is inescapable that the general financial situation of state governments is not at all bleak.

In sum, while there have been great pressures exerted upon state and local finances within the past few years, the image of "bankrupt" local governments may have been overextended. Moreover, a beneficial attribute of the new demand for revenues has been an increasing progressivity in the structure of state tax systems as more and more emphasis is placed on individual and corporate taxation. Since 1961, nine states have inaugurated broad-based personal income taxes, and nine have enacted new corporation taxes bringing the totals to 40 and 45, respectively.[88] One conceivable ramification of the infusion of additional funds which revenue sharing makes possible may be a slowing in the rate at which states move to lessen the regressive nature of their taxes. At any rate, a more convincing argument can be made for fiscal relief at the national rather than the state and local level. If Congress decides to extend the revenue sharing program past 1976, it should at least exclude state governments from participation.

The argument that federal controls hamper local officials in the execution of their duties is two-pronged: (a) statutory and administrative regulations are too complex and obtrusive, and (b) local officails are best able to design programs to meet the needs of their constituents. As to the first issue, it is difficult to know exactly how much influence federal agencies wield in the formation of state and local policy, but the available evidence suggests that federal officials are ordinarily reluctant to intrude into the details of local administration, while their coercive powers are limited by the unwieldy nature of the enforcement mechanisms.[89] In fact, the entire history of the administration of the Social Security Act has been marked by nearly absolute state control of day-to-day policy. Besides the matching and personnel requirements, the distributional and auditing regulations which accompany federal participation in public assistance are very similar in their nature to equivalent provisions in the revenue sharing legislation. To assist eligible jurisdictions in meeting the applications requirements for grants-in-aid, more and more federal legislation is explicitly providing for technical assistance, although there is much more that could be done to further communication and interaction among the levels of government.

To say that local agencies are more efficient in the delivery of services is to ignore the simple fact that the federal government actually delivers very few domestic programs at all. What this argument amounts to is a plea that state and local officials be allowed to exercise full discretion in the design and operation of community programs funded from Washington. While it may be true that local resources are in some cases unfairly burdened by the financial contribution required by most categorical grants, the dangers of allowing complete local autonomy are readily apparent. The discriminatory and injudicious aspects of state welfare laws have been struck down by the courts time and again. "Midnight raids," denial of due process, publication of welfare lists, and compulsory employment, suitable home, and man-in-the-house rules were not the embodiments of federal policy; they were put into effect by state legislatures. De-conditioning the giving of federal assistance may well free local officials to exercise greater latitude in administration, but the costs may be high. Most federal regulations and controls are implemented for a purpose, and it is doubtful that any federally-subsidized program can be effectively or equitably operated without them.

Finally, many proponents of general revenue sharing have advanced the proposition that by increasing local resources citizen participation in the processes of local government will be stimulated. That does not appear to be happening,[90] and there are reasons why it shouldn't. For one thing, national government activities are usually much more visible than are state and local actions. Federal decisions involve greater sums of money, touch the lives of more people, and are reported more extensively in the press. Secondly, an important group of public service consumers--low-income people--have traditionally obtained a more receptive hearing in Washington than in the councils of state and local governments. Perhaps the most fundamental purpose of federal grants-in-aid is to provide the financial backing to redress maldistributions of political power and direct government services to the disadvantaged. To return that ability to designate social priorities to state and local officials is to deny that there is a legitimate national interest in curing domestic ills. Local citizen participation did not bring about the programs of the War on Poverty; federal intervention did.

An effective structure for distributing federal assistance should seek to encompass the following three goals: (1) a clear and precise definition of program objectives and target groups, (2) a means of evaluating service performance and the attainment of mission goals, and (3) simplicity of administration for the recipient and the granting agency. General revenue sharing works well only in its ease of administration; it fails with respect to the other two objectives. In designing federal aid programs for the future, it may be worthwhile to reconsider the advantages of a modified system of categorical grants-in-aid.

Some categorical assistance programs have suffered in the past from confusing or contradictory goals. It is not unusual for the implementing legislation to attempt to achieve too much, rather than to focus federal resources on the solution of a discrete national problem. Thus, the preamble to the Economic Opportunity Act of 1964 declares it to be in the national interest to achieve "full economic and social potential as a nation" by eliminating "the paradox of poverty in the midst of plenty." The Demonstration Cities and Metropolitan Development Act of 1966 (Model Cities) finds that "improving the quality of urban life is the most critical domestic problem facing the United States" and authorizes a federal aid program to meet this need.[91] Congress should generally refrain from designating multiple and unrealistic legislative goals in the enactment of domestic assistance programs. Individual objectives should be clearly thought through and aid programs designed to facilitate periodic reassessment of their utility.

To further this process of evaluation, overall coordination of domestic assistance should be vested in one Congressional committee. This would seem to be an ideal responsibility for the new House and Senate Budget Committees. While various attempts at integration and coordination have been made within the Executive branch,[92] the results have not been wholly satisfactory.[93] In addition, of the many hundreds of categorical grant programs enacted through the years, only a very few have ever been terminated.[94] Formal congressional action is required to monitor the performance and operation of federal aid. This process of evaluation may take more forms than it has in the past. In some areas, experiments with "incentive assistance," whereby federal participation is partly tied to the results of state and local administration, may be called for. Grant programs may profitably encourage greater competition in the delivery of services at the local level by opening up opportunities for various groups to undertake public programs, either through a system of vouchering or by widening the definition of eligible recipients. Finally, because federal assistance properly represents an enunciation of national policy with respect to national priorities, state and local matching requirements should be de-emphasized for many programs, thereby freeing local resources to be used as local officials think best.

The continuation of the Federal system is premised upon the assumption that there are certain activities which are best carried out by each level of government. That belief is largely justified: no one seriously contends that the national government should provide local police protection or that the states should be responsible for foreign policy. Categorical grants-in-aid should work within this structure and in harmony with its principles. As a general rule, therefore, assistance payments should be made directly to the government responsible for implementation. What this means is that more programs should be designed to provide federal aid to local areas. The experience of many local governments is that state supervision of local administration is more inhibiting and intrusive than federal regulation. As several local officials have observed:

> Everything we've gotten in this city is from the federal government. The state has not done one d----d [sic] thing for us....
>
> The larger, more competent cities must deal as much as possible with the federal government and the states should keep out of the way, performing services for the less able rural areas.
>
> If the need is in the city, it should be met in the city. Passing the money through an extra pair of hands is wasteful. I would ten times rather go to the federal government than the state government. Washington programs are directed to urban areas. State programs are different.[95]

It does not seem wise to continue the policy of directing major assistance programs through state governments which have no responsibility for their administration. The federal government could easily provide direct grants to all cities with populations over 50,000. For smaller cities and rural areas, a system of nonmetropolitan development councils might be established. James L. Sundquist has presented a useful model of such a system, and he bases its operation on three major characteristics. "First, each of the functions can best be performed on a multi-community basis, which in most areas means a multicounty basis....Second, all of the functions can best be performed by a single multicounty agency responsible both for planning and for project promotion in all fields relating to the area's development....Third, all of the functions need to be performed in all nonmetropolitan areas, not just in some of them."[96] Such a structure could well reduce the conflicts and wasted resources of some categorical assistance programs.

Finally, there are important steps that can be taken to improve the administration of federal grants-in-aid. Obsolete programs should be cut back, and there should be some consolidation and streamlining in the design of others. To lessen the burden of assistance applications and insure that all intended recipients share in the benefits of federal initiatives, more emphasis should be placed on formula grants for major programs than project grants. In addition, it is time that "[p]overty... be regarded as a national problem that can neither be left to neighborhood charity nor placed as a tax burden on those who happen to live in jurisdictions or metropolitan areas with a large low-income population and hence carry heavy welfare needs. Nationwide finance is called for and this can only be provided at the federal level."[97] The delivery of social services should, however, remain with local governments.

For over forty years the federal government has taken an active role in funding programs to improve the quality of life in the United States. This task, always controversial, has grown increasingly complex as national priorities have widened and the responsibility of the federal government has increased. Questions will continue to be raised--and should be raised--about the success or failure of domestic assistance and the methods employed in its administration. General revenue sharing, on balance, does not provide the answers. The best hope lies in an improved and strengthened system of categorical grants-in-aid.

FOOTNOTES

1. 31 U.S.C. 1221-63 (Supp. II, 1972) (Enacted As Pub. L. No. S2-512, 86 Stat. 919 (1972)).

2. *The President's Message to Congress Proposing General Revenue Sharing*, 117 Cong. Rec. H438 (daily ed. Feb. 4, 1971).

3. *The President's Budget Message to Congress*, in U.S. Office of Management And Budget, *Special Analyses, Budget Of The United States Government* - Fiscal Year 1974 (1973), p. 210.

4. In Otto G. Stolz, *Revenue Sharing: Legal And Policy Analysis* (New York: Praeger, 1974

5. David A. Caputo and Richard L. Cole, "The Initial Impact Of Revenue Sharing On The Spending Patterns Of American Cities," Paper Prepared For Presentation Before The Annual Meeting Of The Southern Political Science Association, Atlanta, Georgia, November 1-3, 1973 (September 15, 1873), p. 38 (Mimeographed.)

The Detailed Findings Are As Follows:

Population Group	Very Satisfied		Somewhat Satisfied		Uncertain		Somewhat Dissatisfied		Very Dissatisfied	
	%	No.	%	No.	%	No.	%	No.	%	No.
Over 500,000	45.4	5	27.3	3	27.3	3	0.0	-	0.0	-
250,000-500,000	37.4	6	25.0	4	31.3	5	0.0	-	6.3	1
100,000-250,000	40.4	21	40.4	21	9.6	5	9.6	5	0.0	-
50,000-100,000	50.1	60	30.0	36	10.8	13	5.8	7	3.3	4
Metropolitan Type										
Central City	45.9	58	30.2	38	15.9	20	5.6	7	2.4	3
Suburban	46.7	34	35.6	26	8.2	6	6.8	5	2.7	2
Total, All Cities	46.2	92	32.2	64	13.1	26	6.0	12	2.5	5

6. The complete question was: "In addition to providing certain monies to State and Local Governments, for specific purposes, the National Government has begun a new form of Federal Aid called Revenue Sharing. Under this new program, State and Local Governments will receive $5.5 billion this year to use as they think best. Do you favor or oppose this new revenue sharing form of Federal Aid?"

7. Advisory Commission on Intergovernmental Relations, Revenue Sharing and Taxes: A Survey of Public Attitude (Washington: Government Printing Office, August, 1973), unpaged.

Some of the detailed findings are as follows:

	Favor (%)	Oppose (%)	No Opinion (%)
Total U.S. Public	56	18	26
Non-Metro-Rural	52	16	32
Urban	52	23	25
Metro-500,000-999,000	56	16	28
1,000,000 or over	58	18	24
Northeast	62	14	24
North Central	50	24	26
South	56	14	30
West	54	23	23
Under $5,000 Family Income	44	14	42
$5,000-$6,999	59	15	26
$7,000-$9,999	54	20	26
$10,000-$14,999	62	20	18
$15,000 or over	62	21	17
White	58	18	24
Non-White	46	16	38

8. "When the Federal Government gives funds to State and Local Governments, do you feel the money is used more efficiently when it is given out for specific purposes or when it is given out for the State and Local Governments to use as they think best?"

9. Ibid. The detailed figures are as follows:

	For Specific Purposes	As They Think Best	No Opinion
Total U.S. Public	48	30	22
Non-Metro-Rural	46	32	22
Urban	43	36	21
Metro-50,000-999,999	45	33	22
1,000,000-or over	53	25	22
Northeast	54	26	20
North Central	49	29	22
South	42	33	25
West	51	33	16
Under $5,000 Family Income	39	27	34
$5,000-$6,999	47	31	22
$7,000-$9,999	50	27	23
$10,000-$14,999	55	31	14
$15,000 or over	49	36	15
White	48	32	20
Non-White	51	19	30

10. U.S. Office of Management and Budget, Budget Of The United States Government - Fiscal year 1974 (1973).

11. Advisory Commission on Interngovernmental Relations, Federalism In 1973: The System Under Stress (Washington: Government Printing Office, January, 1974), p. 10.

12. Any interpretation of the figures for 1974 and 1975 should take into consideration the enactment of Supplementary Security Income by the U. S. Congress. This Program, effective January, 1974, nationalized the "Adult Categories" of Public Assistance (Aid to the Aged, Blind, and Disabled), and will save State and Local Governments between $500 million and $1 billion in its first year of operation.

13. Barry M. Blechman, Edward M. Gramlich, and Robert W. Hartman, Setting National Priorities: The 1975 Budget (Washington: Brookings Institution, 1974), p. 41.

14. Senators Gaylord Nelson and Jacob Javits introduced legislation in the Ninety-Third Congress to provide Federal funds to municipalities for funding Community Action Programs under the Economic Opportunity Act of 1964. Both Senators linked the proposed bill to fears about the future of CAP agencies under revenue sharing.

15. Caputo and Cole, p. 30

16. A Congressional Committee has defined impoundment as: "One, withholding or delaying the expenditures or obligation of funds...appropriated or otherwise obligated for projects or activities, and the termination of authorized projects or activities for which appropriations have been made, and

Two, any type of Executive Action which effectively precludes the obligation or expenditure of the appropriated funds." U.S. Congress, Joint Hearings on S.373 Before Ad Hoc Subcommittee On Impoundment Of Funds Of The Committee On Government Operations and the Subcommittee on Separation of Powers of the Committee on the Judiciary, 93rd Congress, 1st Session (1973).

17. The contested funds were originally appropriated by the Congress in accordance with the following Acts:

A. Water Pollution Control Act Amendments of 1972, 33 U.S.C. Sec. 1281;

B. National Defense Education Act, (Title III), 20 U.S.C. Sec. 441;

C. Elementary and Secondary Education Act of 1965, 20 U.S.C. Sec. 241;

D. Adult Education Act of 1966, 20 U.S.C. Sec. 1201;

E. Vocational Education Act of 1963, 20 U.S.C. Sec. 1241;

F. Library Services and Construction Act of 1970, 20 U.S.C. Sec. 351;

G. Federal Aid Highway Act of 1956, 23 U.S.C. Sec. 101;

H. Indian Education Act, P.L. 92-318;

I. Indian Health Services Act, P.S. 92-369;

J. Nurses Training Act of 1971, 42 U.S.C. Sec. 296;

K. Comprehensive Health Manpower Act of 1971, 42 U.S.C. Sec. 295;

L. Community Mental Health Center Act, 42 U.S.C. Sec. 2688;

M. Rural Electrification Loans, 7 U.S.C. Sec. 901;

N. Emergency Agriculture Loans, 7 U.S.C. Sec. 1981;

O. Rural Environmental Assistance Program, 16 U.S.C. Sec. 590;

P. Special Supplemental Food Program, 42 U.S.C. Sec. 1786;

Q. Farmers' Home Administration Interest Credit Program, 42 U.S.C. Secs. 1472 and 1485;

R. Federally Assisted Code Enforcement Program, 42 U.S.C. Sec. 1452; and

S. Federally Assisted Housing Programs of the Federal Housing Administration.

18. 479 F. 2nd 1099 (8th Cir. 1973).

19. Bruce R. Hopkins, "Congress Curtails Presidential Impoundments," *American Bar Association Journal*, LX (September, 1974), p. 1053.

20. 361 F. Supp. 897 (D.D.C. 1973).

21. 358 F. Supp. 669 (D.D.C. 1973).

22. 358 F. Supp. 60 (D.D.C. 1973).

23. *National Council of Community Mental Health Centers vs. Weinberger*, 361 F. Supp. 897 (D.D.C. 1973).

24. P. L. 93-344.

25. P. L. 93-245.

26. Act of June 23, 1836, Ch-115, 5 Stat. 52.

27. Joseph A. Pechman, *Federal Tax Policy* (2d ed. Rev.; Washington: Brookings Institution, 1971), p. 239.

28. U.S. Senate, *Periodic Congressional Reassessment of Federal Grants-In-Aid to State and Local Governments*, 90th Cong., 1st Sess. (July 10, 1967.), p. 9.

29. Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice* (New York: McGraw-Hill, Inc., 1973), p. 627.

30. See Daniel P. Moynihan, *Maximum Feasible Misunderstanding* (New York: The Free Press, 1970); Frances Fox Piven and Richard A. Cloward, *Regulating The Poor: The Functions of Public Welfare* (New York: Pantheon Books, 1971); Kenneth Clark and Jeanette Hopkins, *A Relevant War Against Poverty* (New York: Harper and Row, 1968).

31. U. S. Senate, *Creative Federalism*, Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, 90th Cong., 1st Sess. (1967), p. 548.

32. Ibid., p. 272.

33. Social Security Board, *Compilation of the Social Security Laws, Including the Social Security Act Amendments of 1939* (Washington: Government Printing Office, No Date), p. 2.

34. Martha Derthick, *The Influence of Federal Grants: Public Assistance in Massachusetts* (Cambridge, Mass.: Harvard University Press, 1970), p. 224.

35. Lawrence E. Susskind, *Decision-Making and Resource Allocation in State Government: A New Perspective on Revenue Sharing and Strategies for City Survival*, Unpublished Ph.D. Dissertation, Massachusetts Institute of Technology, 1973, p. 111.

36. P. L. 89-749.

37. P. L. 90-351.

38. Lawrence E. Susskind *Decategorization and the Emergence of Bureaucratic Impediments to Institutional Reform*, Unpublished Paper, 1974, p. 3.

39. See U. S. House of Representatives *Hearings Before a Subcommittee of the Committee on Government Operations*, 92nd Cong., 1st Sess., 1971.

40. Derthick, p. 228.

41 U. S. Congress, *Open-Ended Federal Matching of State Social Service Expenditures Authorized Under the Public Assistance Titles of the Social Security Act*, Hearings Before the Subcommittee on Fiscal Policy of the Joint Economic Committee, 92nd Cong., 2nd Sess., 1972, p. 7.

42. Edward R. Fried, *Et Al., Setting National Priorities: The 1974 Budget* (Washington: Brookings Institution, 1973), p. 193.

43. 42 U.S.C. Sec. 1301 (1972).

44. Caspar W. Weinberger, "Decentralization," Memorandum for Assistant Secretary and Agency Heads, March 6, 1973, p. 2.

45. See *HEW Newsletter*, August, 1973; Frank C. Carlucci, "Decentralization," Memorandum, March 26, 1973. Four years after the President had announced his intentions, there was still a considerable degree of direct administration from Washington.

46. H. R. 12080, 85th Cong., 2d Sess. (1958).

47. Walter W. Heller, *New Dimensions of Political Economy* (Cambridge, Mass.: Harvard University Press, 1966). pp. 145-172.

48. Walter W. Heller, "Rebuttal Comments," Revenue Sharing and The City, ed. Harvey S. Perloff and Richard P. Nathan (Baltimore: The Johns Hopkins Press, 1968), p. 109.

49. U. S. Congress, Revenue Sharing and Its Alternatives: What Future for Fiscal Federalism?, Hearings Before the Subcommittee on Fiscal Policy of the Joint Economic Committee, 90th Cong., 1st Sess., 1967, p. 108.

50. Musgrave and Musgrave, p. 640.

51. 31 C.F.R. Sec. 51.

52. ". . . the Federal Government would permanently set aside, and I underscore the word 'permanently,' up to 2 percentage points of the Federal Individual Income Tax Base." "Statement of Walter W. Heller," Revenue Sharing and its Alternatives: What Future for Fiscal Federalism?, p. 108.

53. Musgrave and Musgrave, p. 627.

54. U. S. Department of the Treasury, Office of Revenue Sharing, General Revenue Sharing - The First Planned Use Reports, prepared by Priscilla R. Crane (Washington: Government Printing Office, 1973), p. 3.

55. Stolz, p. 2.

56. Ibid., p. 29.

57. "U. S. Tells Town To End Hiring Bias Or Lose Aid," New York Times, August 9, 1974.

58. 40 U.S.C. 276a.

59. U. S. General Accounting Office, Revenue Sharing: Its Use By and Impact On Local Governments (Washington, April 25, 1974), pp. 62, 68, 98, 99; Revenue Sharing: Its Use By and Impact On State Governments (Washington, August 2, 1973), p. 26.

60. U. S. General Accounting Office, Revenue Sharing: Its Use By and Impact On State Governments, p. 13.

61. Ibid., p. 12.

62. 31 CFR Sec. 51.40.

63. U. S. Department of the Treasury, Office of Revenue Sharing, General Revenue Sharing-The First Actual Use Reports, prepared by David A. Caputo and Richard L. Cole (Washington: Government Printing Office, March 1, 1974), pp. 10-13. (Author's Computations.)

64. See Advisory Commission on Intergovernmental Relations, *ACIR: The Year in Review* (Washington: Government Printing Office, January, 1974), pp. 4-5.

65. David A. Caputo and Richard L. Cole, *Fourth Entitlement Period General Revenue Sharing Expenditure Decisions in Cities over 50,000*, Workshop Paper for the 1974 Conference of the American Society for Public Administration, Syracuse, New York, May 7, 1974, p. 5. (Mimeographed.)

66. Charles Brown and James Medoff, "Revenue Sharing: The Share of the Poor," *Public Policy*, XXII (Spring, 1974), p. 178.

67. U. S. General Accounting Office, *Revenue Sharing: Its Use By and Impact On Local Governments*, p. 30.

68. *Mathews vs. Massel*, Civil No. 17814 (N.D. Ga., 1973).

69. Ibid., pp. 13-14.

70. U. S. General Accounting Office, *Revenue Sharing: Its Use By and Impact On Local Governments*, p. 30.

71. *General Revenue Sharing-The First Actual Use Reports*, p. 16. The details, by Government, are:

States and the Dictrict of Columbia:	30.2%
Counties:	57.7%
Cities:	43.5%
Townships:	43.6%
Indian Tribes and Alaskan Native Villages:	0.7%

Over one quarter of the Governments polled indicated that it was as yet too early to tell.

72. Ibid., p. 17. The detailed figures, by Governments, are:

States and the Dictrict of Columbia:	15.7%
Counties:	39.1%
Cities:	35.5%
Townships:	27.9%
Indian Tribes and Alaskan Native Villages:	19.4%

Thirty-one percent (31%) felt it was too early to tell.

73. 31 CFR Sec. 51.31(b).

74. Richard P. Nathan, "Statement on Revenue Sharing," *Hearings Before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations*, 93rd Cong., 2d Sess. (June 5, 1974), p. 6 of Processed Statement. (Emphasis In Original.)

75. Caputo and Cole, *The Initial Impact of Revenue Sharing on the Spending Patterns of American Cities*, p. 33. For 193 cities with populations over 50,000, the findings are as follows:

	Revenue Sharing Used Mainly For:			
	New Programs		Existing Programs	
Population Group	No.	Percent	No.	Percent
Over 50,000	-	0.0	10	100.0
250,000-500,000	1	5.9	16	94.1
100,000-250,000	19	37.3	32	62.7
50,000-100,000	35	30.4	80	69.6
Metropolitan Type				
Central City	28	22.8	95	77.2
Suburban Area	27	38.6	43	61.4
Total	55	28.5	138	71.5

76. It is extremely interesting to speculate that the reporting requirements of the Act and the fragmentation of the Program among some 37,000 Jurisdictions may actually have been intended to frustrate accountability and public discussion of the operation of the Program.

In this regard, it is significant that the Nixon Administration bitterly opposed any reporting requirements at all. Stolz, p. 111.

As for the actual use reports, their lack of comprehensiveness is exceeded only by the misleading nature of the information they contain. "They must be the shortest form in the history of the Federal Government." (Two Pages.) Interview with Priscilla R. Crane, Manager of Public Affairs, U. S. Office of Revenue Sharing, June, 1974.

77. 31 CFR Sec. 51.13.

78. Quoted in Lawrence E. Susskind, *Revenue Sharing and the Lessons of the New Federalism* (Unpublished), p. 14.

79. See, E. G., Edward C. Banfield, *The Unheavenly City* (Boston: Little, Brown & Co., 1970); H. Wentworth Eldredge, *Taming Megalopolis* (2 vols.; Garden City, N. Y.: Anchor Books, 1967); Jeanne R. Lowe, *Cities in a Race with Time* (New York: Vintage Books, 1967).

80. U. S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, Public Assistance Statistics; January, 1974 (May 31, 1974), unpaged.

81. This analysis is largely corroborated by Edward R. Fried et al., Setting National Priorities: The 1974 Budget (Washington: Brookings Institution, 1973), pp. 269-272.

82. U. S. Department of Commerce, Bureau of the Census, State Tax Collections in 1973 (Washington: Government Printing Office, November, 1973), p. 1.

83. Advisory Commission on Intergovernmental Relations, Federalism in 1973: The System Under Stress, p. 12.

84. U. S. Department of Commerce, Bureau of the Census, State Government Finances in 1972 (Washington: Government Printing Office, October, 1973), p. 1.

85. Advisory Commission on Intergovernmental Relations, Measuring the Fiscal Capacity and Effort of State and Local Areas (Washington: Government Printing Office, March, 1971).

86. Advisory Commission on Intergovernmental Relations, Federal-State-Local Finances: Significant Features of Fiscal Federalism, pp. 61-62.

87. For a critique of the Advisory Commission's Index see John S. Akin, "Fiscal Capacity and the Estimation Method of the Advisory Commission on Intergovernmental Relations," National Tax Journal, XXVI (June, 1973), p. 275.

88. As of July 1, 1973, Advisory Commission on Intergovernmental Relations, Federal-State-Local Finances: Significant Features of Fiscal Federalism, p. 159. For a discussion of the incidence of State and Local taxes, see Joseph A. Pechman and Benjamin A. Okner, Who Bears the Tax Burden? (Washington: Brookings Institution, 1974), pp. 62-65.

89. For an interesting but somewhat out of date analysis of Federal regulation of Welfare Policy, see Advisory Commission on Intergovernmental Relations, Statutory and Administrative Controls Associated with Federal Grants for Public Assistance (Washington, May, 1964); For One State's Experience (Massachusetts), see Derthick.

90. Caputo and Cole have figures on the willingness of city officials to hold public hearings on the use of shared revenue:

	Public Hearings Held?			
	Yes	Percent	No	Percent
1973	96	49	99	51
1974	101	59	69	1

Public Hearings to be held in the Future?

	Yes	Percent	No	Percent
1973	74	50	76	50
1974	90	53	81	47

Thus, about half of all spending decisions are being made without providing a readily accessible forum for community input. Caputo and Cole, Fourth Entitlement Period General Revenue Sharing Expenditure Decisions In Cities Over 50,000, p. 9.

91. Quoted in James L. Sundquist, Making Federalism Work (Washington: Brookings Institution, 1969), p. 4.

92. For the latest, see OMB Circular A-95 (Revised), Federal Register, XXXVIII (November 28, 1973), p. 32874.

93. See U. S. House of Representatives, New Federalism, Hearings before a Subcommittee of the Committee on Government Operations, 93rd Cong., 2d Sess. (1974); U. S. Department of Health, Education and Welfare, Social and Rehabilitation Services, Integration of Human Services In HEW: An Evaluation of Services Integration Projects (Vol I; Washington, 1972).

94. See U. S. Senate, Periodic Congressional Reassessment of Federal Grants-In-Aid to State and Local Governments.

95. Quoted in Sundquist, p. 265.

96. Ibid., pp. 225-229.

97. Musgrave and Musgrave, p. 650.